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OVERSIGHT OF POSTAL SERVICE ELECTRONIC MAIL AND CENTRALIZED DELIVERY PROGRAMS

OMPLETED 289

ORIGINAL

HEARING

BEFORE A

SUBCOMMITEE OF THE

COMMITTEE ON

GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

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OVERSIGHT OF POSTAL SERVICE ELECTRONIC MAIL AND CENTRALIZED DELIVERY PROGRAMS

MONDAY, JUNE 10, 1985

House of Representatives,
Government Information, Justice,
and Agriculture, Subcommittee
of the Committee on Government Operations,
Washington, DC.

The subcommitte met, pursuant to notice, at 2 p.m., in room 2247, Rayburn House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Glenn English, John M. Spratt, Jr., and John R. Miller.

Also present: Edward J. Gleiman, counsel; Euphon Metzger, clerk; and John J. Parisi, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN ENGLISH

Mr. English. The hearing will come to order.

Today's hearing is the first in what I anticipate will be a lengthy, involved, and I hope informative series.

The Postmaster General was invited to testify today. Unfortunately, although his schedule was open when we invited him, Mr. Carlin has chosen not to participate in today's hearing. Perhaps he is busy—flying around in his executive jet, in search of excellence.

As those of you who follow the Postal Service know, just a few short months after imposing what amounted to a 10-percent hike in rates, the Postal Service is faced with a tide of red ink. Costs, it seems, are out of control.

We all know that the Postal Service is 85 percent labor intensive. Headquarters' managers remind us of this often enough. What they don't like to tell us, as they bemoan the falling productivity of others, is that they are part of the Postal Service work force too.

Moreover, they would have us forget that they are in a position to make the decisions that can save millions of dollars for the Postal Service—for the mailing public. Of course, when they make the wrong decision or do not move expeditiously, they can also cost us a bundle.

I know of a number of recent, high-level decisions that have cost the Postal Service money. They range from flying that jet up to New York for a dinner with Forbes' executives, or to UVA to meet with MBA students; to paying the legal expenses of a Postal Service Governor who arranged some loans; to giving a half million dollars in PCES bonuses; to giving a recently dismissed official a very sweet going-away present; to some major procurement irregularities. All this when the horizon is full of red ink.

We will focus on some of these issues and ZIP+4 at future hearings.

Today, however, we are going to hear about management actions that either have saved or are likely to save some postal dollars—at least, I think we are going to hear about savings.

I would like to recognize now Mr. Miller for any comments that he would care to make.

Mr. Miller. Mr. Chairman, thank you.

I think, given the previous work of the committee and the issues before us, that this hearing is a timely one, and I am looking forward, as a new member of the committee, to learning and getting some answers about E-COM and Intelpost and cluster boxes, and other such issues that relate to management in the Postal Service, so let's get on with the hearing.

Mr. English. Thank you very much, Mr. Miller.

Our witnesses today are Mrs. Karen Uemoto, Mr. Herbert Schiller, and Mr. Andrew Walker. If you would like to come forward and take your seats, please. I want you all to know that, in the interest of obtaining full and accurate answers, we pretty much gave the Postal Service the questions that would be asked at today's hearing. So, this is kind of like an open book exam for our witnesses; and, I invite others in the hearing to join us in helping to grade their answers, once this hearing is over with.

We will lead off, I suppose, with Ms. Uemoto. You are the Assistant Postmaster General in the Rates and Classification Department.

STATEMENT OF KAREN T. UEMOTO, ASSISTANT POSTMASTER GENERAL, RATES AND CLASSIFICATION DEPARTMENT, U.S. POSTAL SERVICE

Ms. Uemoto. With me are Herbert Schiller, Assistant Postmaster General, Technology Resources Department; and Andrew Walker, Assistant Postmaster General of the Delivery Services Department.

We are here today at your request to discuss E-COM and Intelpost services and centralized delivery. I will deliver the statement on E-COM service; Mr. Schiller will deliver the statement on Intelpost service, and Mr. Walker will deliver the statement on centralized delivery. At the end of all the statements, each of us will be happy to respond to your questions.

Before I begin, I would like to say, on behalf of the Postal Service, that we view this hearing as important since it gives us an opportunity to put before the Congress and the public at large our position on these issues. We appreciate, Mr. Chairman, your longstanding interest in these and other postal matters, and we view this meeting today as a kind of status report, an update, if you will, of matters covered at previous hearings before this subcommittee.

At the time of the subcommittee's last hearing on E-COM service in May 1983, we had recently completed filing before the Postal Rate Commission a proposal for both rate and classification adjustments for E-COM service. I will briefly summarize the major chronological events related to this filing.

On April 25, 1983, we submitted a proposal to the Commission to increase E-COM rates, to eliminate the 200-message minimum, and to establish a reply envelope insert service. On February 24, 1984, the Commission recommended elimination of the 200-message minimum and establishment of the reply envelope insert service. The Commission also recommended rates considerably higher than our proposed rates. On May 8, 1984, the Governors of the Postal Service rejected the Commission's recommended decision on rates and resubmitted it to the Commission for reconsideration. On June 1, 1984, the Commission issued its opinion after reconsideration, which recommended a slightly reduced rate. On June 5, 1984, the Governors rejected the Commission's further recommended decision. At that time, the Board directed the Postal Service to seek proposals from parties who would be interested in buying or leasing the E-COM system from the Postal Service. It was decided that the changeover should occur early in 1985 and, in the meantime, E-COM service would continue in its prefiling form.

In order to carry out the Board of Governors' order of divestiture of the E-COM service, postal management contracted with Booz-Allen Acquisition Services, Inc., to assist in the divestiture process. In October 1984, Booz-Allen produced an offering document describing the E-COM service acquisition opportunity to prospective buyers and distributed the document to several hundred private sector firms. The document required that written offers and business proposals be received by the Postal Service on or before December 14, 1984. Five proposals were received by this date. After careful evaluation, three firms determined to be in the competitive range were formally invited to participate in the next—due diligence—phase of the process.

During the due diligence phase, the three competitive-range bidders were encouraged to make ample use of an E-COM reading room at headquarters to become more familiar with the E-COM service and to assist them in preparing their best and final offers to be received by the Postal Service prior to the close of business on March 15, 1985. The reading room contained a large collection of documents dealing with the technical specifications of E-COM equipment, operating procedures, maintenance procedures, customer support, system volume, operating costs, and marketing research studies. Every effort was made to provide bidders with the information they felt necessary to complete their final offers. At the conclusion of the due diligence process, no acceptable offers were received by the Postal Service.

On June 4, 1985, the Postmaster General informed the Board of Governors that we had decided to begin to close down the E-COM system. That decision was based on the fact that we still had not received any offer that was financially attractive enough to be accepted. The Postmaster General said that E-COM service, as presently constituted, was not paying its own way and showed no signs of paying its own way in the future. Although the Postal Service did not completely foreclose the possibility of divestiture, it began to take the steps necessary to close down the E-COM system.

Since the announcement on June 4, the Postal Service has given the notices necessary to terminate the contractual relationships that had been established with the E-COM dedicated-access carriers. The Postal Service has also begun work on an appropriate filing with the Postal Rate Commission on closing down the E-COM system. The proposed filing will be presented to the Board for approval at its July meeting. The Postal Service will, if possible, complete the closedown process by September 2, 1985, which is the end of the notice period for terminating the dedicated-access agreements.

Notwithstanding the decision to close down the E-COM system, the Postal Service would still prefer to sell the system to a private company. To that end, it will remain open to an acceptable offer.

That ends my prepared remarks, and Mr. Schiller will now talk about Intelpost service.

STATEMENT OF HERBERT H. SCHILLER, ASSISTANT POSTMASTER GENERAL, TECHNOLOGY RESOURCES DEPARTMENT, U.S. POSTAL SERVICE

Mr. SCHILLER. Good afternoon. I am Herbert H. Schiller, and I appreciate the opportunity to provide you with updated information on Intelpost service.

Fiscal year 1985 has seen substantial changes and improvements in the Intelpost project. On October 1, 1984, the beginning of our fiscal year, we changed from our dedicated-link store-and-forward system to a dial-up system, using the public switched telephone network. This move permitted substantial cost reductions. At the same time, our revised marketing approach led to significant volume growth, and the Intelpost network expanded through the addition of new countries. Allow me to discuss these changes in succession.

The changeover from store-and-forward, dedicated-link technology to the dial-up system has enabled us to eliminate all dedicated satellite links to other countries. We eliminated gateway computers, gateway printers, and dedicated gateway personnel so that Intelpost mail is now handled by other postal employees, in addition to their other duties.

We also eliminated 85 percent of the headquarters personnel dedicated to Intelpost service, because we no longer require the sophisticated technical support needed for the former system. Only one person in headquarters is now solely dedicated to the management of the service. We are now using inexpensive, leased, group 3 facsimile equipment, which is very simple to operate. Maintenance is provided as part of the lease agreement. As a staff member of one of our Governors remarked, "We eliminated a 30-foot by 30-foot room full of computers and printers and replaced it with a piece of gear the size of a small, desk-top xerographic machine with a telephone on top."

Looking at it from a financial standpoint, we drastically reduced overhead costs which could not be absorbed by low Intelpost mail volumes. The efforts are telling from a cost point of view. While the fiscal year 1984 operating expenses for Intelpost service were

$1.2 million, those for fiscal year 1985 are estimated to be about one-tenth that amount.

Together with changes to a simpler but effective technology, we have also modified our marketing approach. In 1984, we had already eliminated general advertisements in the nationally distributed print media, such as the New York Times, the Wall Street Journal, and the Los Angeles Times. Instead, in 1984, we concentrated our advertisements in local trade publications, as well as in foreign language newspapers circulating among ethnic groups most likely to exchange messages with the countries with whom we have Intelpost service. This advertising campaign, however, did not prove to be as cost effective as we had hoped. We have, therefore, discontinued newspaper advertisements altogether. Instead we now use direct mail and telemarketing techniques.

We also retained the services of a marketing consulting firm, which is presently negotiating with collateral agents to provide inputs to the Intelpost system. These private sector organizations are better placed to market our international facsimile service. At the same time, we can provide them access to the hard copy distribution networks of the postal administrations in other countries, which the collateral agents could not do by themselves. Several presort houses and "temporary office" organizations have already signed up for this program. Others are coming aboard at the end of this month, but it is too early to tell how effective this approach will be.

What we do know, however, is that our outgoing volume has substantially increased. After 8 accounting periods in 1985, volume has matched that for all 13 accounting periods which comprised the fiscal year 1984. We expect that our overall increase for 1985 will be 60 percent or more over 1984. This increased volume will, of course, lead to increases in our projected expenses, because our communication costs, though low, are now directly dependent on volume as opposed to the dedicated system where they were constant, though high. This increased cost will, however, be more than compensated for made up by increased revenues.

Since the end of fiscal year 1984, the Intelpost network has also expanded substantially. Fourteen countries comprised the Intelpost network on October 1, 1984. Since that time, Brazil, Denmark, Japan, Korea, Luxembourg, and Macao have joined the network. Service with Finland and Norway starts a week from today. Service with Malaysia, the People's Republic of China, Singapore, Greece, and Portugal will begin within the next few months.

Some of these new countries, for instance Japan, produce substantial mail volumes. Others will only be occasional users. They do, however, allow us to market Intelpost with fewer and fewer restrictions. The substantial addition of countries in the Far East, which are beginning to participate in the service, will probably lead us to differentiated tariff rates for Intelpost service, depending on destination. Studies leading to such a revised rate schedule are now underway.

At about the time of the start of the new fiscal year, we also introduced two new exchange offices or gateways in Miami and Los Angeles. These were chosen after analysis of incoming Intelpost mail volumes. That analysis showed that much of the incoming mail was destined for areas around these two cities. We therefore placed gateways in Miami and Los Angeles to enable recipients of Intelpost messages there to reply using outbound Intelpost service.

After similar analysis but for different reasons, we have decided to establish, in the near future, four additional exchange offices in Denver, Seattle, Atlanta, and Boston. These will enable us to provide quicker delivery service to every area of the contiguous United States and will enable large additional segments of the Postal Service's customers to use Intelpost service for the first time. Under the dial-up system, establishing a new site is inexpensive, so that we expect the slight increase in projected costs, due to the new sites, will be more than made up for by increased volume.

The remainder of this fiscal year and the following fiscal year will be periods of considerable challenge for Intelpost service. First of all, we must exploit the marketing opportunities presented to us by the collateral agent strategy developed by our marketing consultants.

Second, we must see to it that we successfully bring the new exchange offices on line and exploit the opportunity to obtain additional mail volume. A similar effort to obtain additional Intelpost volume will need to be made for the new member countries, such as the People's Republic of China and the Republic of Korea.

Finally, we must intensify our efforts to further reduce and control our communications costs. Our primary opportunities in this area lie with improving operating procedures; employing batch transmission of Intelpost messages; limiting transmission to the cheapest time possible while still meeting Intelpost service standards; confirming messages just once a day instead of after every transmission; and intensifying training of our operators to the use of the international telephone network in the most effective way. We have asked AT&T to assist us in these tasks.

This then is Intelpost service today—a still small but a rapidly growing mail service. One that has stopped being a financial drain on the Postal Service and now operates close to the breakeven point. It is still not and probably will not be a significant contributor to postal revenues for some time to come, but this was also true of air mail at its inception.

Intelpost service strengthens our ties with foreign postal administrations. These administrations look to us as distributors of their facsimile mail volume to postal customers in the United States. That volume, as well as their volume to non-U.S. destinations, often grows faster than our own. Intelpost, the international postal facsimile network, thus becomes part of the growing international mail volume. It contributes to our mission of providing universal postal service to mail users here and abroad.

Thank you, Mr. Chairman, and I would like to introduce Mr. Walker.

STATEMENT OF ANDREW S. WALKER, ASSISTANT POSTMASTER GENERAL, DELIVERY SERVICES DEPARTMENT, U.S. POSTAL SERVICE

Mr. **Walker**. Mr. Chairman, I am Andrew S. Walker, and I will discuss the subject of centralized delivery; particularly neighborhood delivery and collection box units.

The Postal Service has the responsibility, in accordance with the Postal Reorganization Act, to design strategies to manage our operational costs more effectively and efficiently. The cost of delivery operations comprises some 39 percent of our operating budget. While we would like to stem the growth of the delivery portion of the budget, we certainly do not wish to trade service for cost savings, for to do so would fly in the face of our responsibility to the public, to provide the best possible service at the lowest possible cost.

Effective management of our operational costs is an especially challenging task because of the constant increase in the number of delivery points we serve. Every year our delivery network grows by about a million and a half new deliveries. At the same time, and for a variety of reasons, individual delivery costs continue to rise. Delivery remains very labor intensive, since it is a very difficult function to automate. This combination of factors leaves us no choice but to seek new and better ways, such as centralized delivery, to stabilize or reduce our delivery costs.

Centralized delivery has been concentrated primarily in new, previously undelivered areas. It is an option available to us that provides a way to reduce delivery costs. Centralized delivery itself is not new; it has been with us in the form of post office boxes and grouped rural mailboxes almost as long as the post office has existed. NDCBU's provide us with another means by which the centralized delivery concept may be expanded. Wherever these units are placed, the Postal Service derives greater vehicular fuel economy which lessens our usage of expensive fossil fuels. This economy comes from the fact that a carrier need stop his or her vehicle only one time to serve as many as 16 deliveries, instead of having to stop as many as 16 times to serve those same deliveries. In addition to fuel economy, the grouping of deliveries leads to greater productivity because less time and motion are required to serve those deliveries. The savings derived contribute to postage rate stabilization.

NDCBU's have other advantages. They provide our customers with improved security for their mail. Each individual receptacle is locked against unauthorized access. There is also a regular collection of outgoing mail by the carrier who serves the unit. In our opinion, NDCBU's are more esthetically pleasing than a line of curbside mailboxes in various states of repair.

Moreover, we assume the repair and maintenance responsibilities for NDCBU's, not the customer. Furthermore, individual receptacles in an NDCBU are larger than a regular mailbox. Accordingly, larger pieces of mail that would otherwise have to be picked up at the post office can be delivered to the NDCBU, thereby saving the customer the time and trouble of picking up the mail.

NDCBU's also minimize many of the common hazards faced by letter carriers. These include unleashed dogs and poorly maintained sidewalks and steps.

In October 1984, we made changes in our NDCBU acquisition policy in an effort to address the concerns of manufacturers. At that time it was decided that we would no longer purchase apartment-type receptacles for use as centralized delivery equipment. This means that we will not provide centralized delivery equipment of any type to new deliveries in apartments or condominiums which have a single entrance or single address for multiple deliveries. We also will not provide delivery equipment for hotel or motel deliveries, trailer parks, or colleges and universities.

Under this amended policy, the Postal Service will, however, continue to provide pedestal-mounted NDCBU's and parcel lockers to military installations. For all new residential and business deliveries on city and rural delivery routes, the options of curbside or centralized delivery remain in effect. If a builder or owner chooses centralized delivery, the Postal Service will purchase, install and maintain pedestal-mounted NDCBU's and parcel lockers, unless the customer has made prior arrangements to install some acceptable form of centralized delivery equipment.

We are presently engaged in a study to determine the current costs of various delivery modes. The study began March 18, 1985, in New York City and was expanded nationally on April 15. Specific data will be collected by route type and delivery mode. This will enable us to evaluate the costs involved in delivery to the door, to curbside boxes, in bulk, to VIM rooms, to boxes located behind the sidewalk, to parcel lockers, to NDCBU's, to delivery centers, to apartment-style boxes, and to grouped boxes. Management sectional centers will supply information as to the costs associated with NDCBU maintenance.

A final report is expected in late September. We will be happy to share this information with you as soon as it becomes available.

This concludes my statement. My colleagues and I will be pleased to answer any questions you have.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Uemoto, Mr. Schiller, and Mr. Walker follows:]

STATEMENT OF KAREN T. UEMOTO, ASSISTANT POSTMASTER GENERAL, RATES AND CLASSIFICATION DEPARTMENT, HERBERT H. SCHILLER, ASSISTANT POSTMASTER GENERAL, TECHNOLOGY RESOURCE DEPARTMENT, AND ANDREW S. WALKER, ASSISTANT POSTMASTER GENERAL, DELIVERY SERVICES DEPARTMENT, UNITED STATES POSTAL SERVICE, BEFORE THE GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE SUBCOMMITTEE OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

June 10, 1985

Mr. Chairman, I am Karen T. Uemoto, Assistant Postmaster General of the Rates and Classification Department. With me here are Herbert H. Schiller, Assistant Postmaster General of the Technology Resource Department, and Andrew S. Walker, Assistant Postmaster General of the Delivery Services Department. We are here today at your request to discuss E-COM and INTELPOST services and centralized delivery. I will deliver the statement on E-COM service; Mr. Schiller will deliver the statement on INTELPOST service, and Mr. Walker will deliver the statement on centralized delivery. At the end of all the statements each of us will be happy to respond to your questions.

Before I begin, I would like to say on behalf of the Postal Service that we view this hearing as important since it gives us an opportunity to put before the Congress and the public at large our position on these issues. We appreciate, Mr. Chairman, your long-standing interest in these and other postal matters and we view this meeting today as a kind of status report, an update, if you will, of matters covered at previous hearings before this subcommittee.

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INTELPOST Service

I am Herbert H. Schiller and appreciate the opportunity to provide you with updated information on INTELPOST service.

Fiscal year 1985 has seen substantial changes and improvements in the INTELPOST project. On October 1, 1984, the beginning of our fiscal year, we changed from our dedicated link store-and-forward system to a dial-up system, using the public switched telephone network. This move permitted substantial cost reductions. At the same time, our revised marketing approach led to significant volume growth, and the INTELPOST network expanded through the addition of new countries. Allow me to discuss these changes in succession.

The change over from store-and-forward dedicated link technology to the dial-up system has enabled us to eliminate all dedicated satellite links to other countries. We eliminated gateway computers, gateway printers, and dedicated gateway personnel, so that INTELPOST mail is now handled by other postal employees, in addition to their other duties. We also eliminated 85% of the Headquarters personnel dedicated to INTELPOST service, because we no longer require the sophisticated technical support needed for the former system. Only one person in Headquarters is now solely dedicated to the management of the service. We are now using inexpensive, leased, group 3 facsimile equipment, which is very simple to operate. Maintenance is provided as part of the lease agreement. As a staff member of one of our Governors remarked, "We eliminated a 30 foot by 30 foot room full of computers and printers and replaced it with a piece of gear the size of a small, desk-top xerographic machine with a telephone on top." Looking at it from a financial standpoint, we drastically reduced overhead costs which could not be absorbed by low INTELPOST mail volumes. The efforts are telling from a cost point of view. While the fiscal year 1984 operating expenses for INTELPOST service were $1.2 million, those for fiscal year 1985 are estimated to be about one-tenth that amount.

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What we do know, however, is that our outgoing volume has substantially increased: after eight accounting periods in 1985 volume has matched that for all 13 accounting periods which comprised the fiscal year 1984. We expect that our overall increase for 1985 will be 60% or more over 1984. This increased volume will, of course, lead to increases in our projected expenses, because our communication costs, though low, are now directly dependent on volume, as opposed to the dedicated system where they were constant, though high. This increased cost will, however, more than be made up by increased revenues.

Since the end of fiscal year 1984, the INTELPOST network has also expanded substantially. Fourteen countries comprised the INTELPOST network on October 1, 1984. Since that time, Brazil, Denmark, Japan, Korea, Luxembourg, and Macao have joined the network. Service with Finland and Norway starts a week from today. Service with Malaysia, the People's Republic of China, Singapore, Greece, and Portugal will begin within the next few months.

Some of these new countries, for instance Japan, produce substantial mail volumes. Others will only be occasional users. They do, however, allow us to market INTELPOST with fewer and fewer restrictions. The substantial addition of countries in the Far East, which are beginning to participate in the service, will probably lead us to differentiated tariff rates for INTELPOST service, depending on destination. Studies leading to such a revised rate schedule are now underway.

At about the time of the start of the new fiscal year, we also introduced two new exchange offices or gateways in Miami and Los Angeles. These were chosen after analysis of incoming INTELPOST mail volumes. That analysis showed that much of the incoming mail was destined for areas around these two cities. We, therefore, placed gateways in Miami and Los Angeles to enable recipients of INTELPOST messages there to reply, using outbound INTELPOST service.

After similar analysis, but for different reasons, we have decided to establish, in the near future, four additional exchange offices in Denver, Seattle, Atlanta, and Boston. These will enable us to provide quicker delivery service to every area of the contiguous United States and will enable large additional segments of the Postal Service's customers to use INTELPOST service for the first time. Under the dial-up system, establishing a new site is inexpensive, so that we expect the slight increase in projected costs, due to the new sites, will be more than made up by increased revenue.

The remainder of this fiscal year and the following fiscal year will be periods of considerable challenge for INTELPOST service. First of all, we must exploit the marketing opportunities presented to us by the collateral agent strategy developed by our marketing consultants. Secondly, we must see to it that we successfully bring the new exchange offices on line and exploit the opportunity to obtain additional mail volume. A similar effort to obtain additional INTELPOST volume will need to be made for the new member countries, such as the People's Republic of China and the Republic of Korea. Finally, we must intensify our efforts to further reduce and control our communications costs. Our primary opportunities in this area lie with improving operating procedures; employing batch transmission of INTELPOST messages; limiting transmission to the cheapest time possible while still meeting

INTELPOST service standards; confirming messages just once a day instead of after every transmission; and intensifying training of our operators to use the international telephone network in the most effective way. We have asked AT&T to assist us on these tasks.

This then is INTELPOST service today -- a still small but a rapidly growing mail service. One that has stopped being a financial drain on the Postal Service and now operates close to the breakeven point. It is still not and probably will not be a significant contributor to postal revenues for some time to come, but this was also true of air mail at its inception. INTELPOST service strengthens our ties with foreign postal administrations. These administrations look to us as distributors of their facsimile mail volume to postal customers in the U.S. That volume, as well as their volume to non-U.S. destinations, often grows faster than our own. INTELPOST, the international postal facsimile network, thus becomes part of the growing international mail volume. It contributes to our mission of providing universal postal service to mail users here and abroad.

Centralized Delivery

I am Andrew S. Walker, and I will discuss the subject of centralized delivery and in particular, Neighborhood Delivery and Collection Box Units (NDCBUs).

The Postal Service has the responsibility, in accordance with the Postal Reorganization Act, to design strategies to manage our operational costs more effectively and efficiently. The cost of delivery operations comprises some 39% of our operating budget. While we would like to stem the growth of the delivery portion of the budget pie, we certainly do not wish to trade service for cost savings, for to do so would fly in the face of our responsibility to the public, which is to provide the best possible service at the lowest possible cost.

Effective management of our operational costs is an especially challenging task because of the constant increase in the number of delivery points we serve. Every year our delivery network grows by about a million and a half new deliveries. At the same time, and for a variety of reasons, individual delivery costs continue to rise. Delivery remains very labor intensive, since it is a very difficult function to automate. This combination of factors leaves us no choice but to seek new and better ways, such as centralized delivery, to stabilize or reduce our delivery costs.

Centralized delivery has been concentrated primarily in new, previously undelivered areas. It is an option available to us that provides a way to reduce delivery costs. Centralized delivery itself is not new; it has been with us in the form of post office boxes and grouped rural mailboxes almost as long as the Post Office has existed. NDCBUs provide us with another means by which the centralized delivery concept may be expanded. Wherever these units are placed, the

Postal Service derives greater vehicular fuel economy which lessens our dependence on expensive fossil fuels. This economy comes from the fact that a carrier need stop his vehicle only one time to serve as many as 16 deliveries, instead of having to stop as many as 16 times to serve those same deliveries. In addition to fuel economy, the grouping of deliveries leads to greater productivity because less time and motion are required to serve those deliveries. The savings derived contribute to postage rate stabilization.

NDCBUs have other advantages. They provide our customers with improved security for their mail. Each individual receptacle is locked against unauthorized access. There is also a regular collection of outgoing mail by the carrier who serves the unit. In our opinion, NDCBUs are more esthetically pleasing than a line of curbside mailboxes in various states of repair. Moreover, we assume repair and maintenance responsibilities for NDCBUs, not the customer. Furthermore, individual receptacles in an NDCBU are larger than a regular mailbox. Accordingly, larger pieces of mail that would otherwise have to be picked up at the post office can be delivered to the NDCBU, thereby saving the customer the time and trouble of picking up the mail.

NDCBUs also minimize many of the common hazards faced by letter carriers. These include unleashed dogs and poorly maintained sidewalks and steps.

In October 1984 we made changes in our NDCBU acquisition policy in an effort to address the concerns of manufacturers. At that time it was decided that we would no longer purchase apartment type receptacles for use as centralized delivery equipment. This means that we will not provide centralized delivery equipment of any type to new deliveries in apartments or condominiums which have a single entrance or single address for multiple deliveries. We also will not provide delivery equipment for hotel or motel deliveries, trailer parks, or colleges and universities.

Under this amended policy the Postal Service will, however, continue to provide pedestal mounted NDCBUs and parcel lockers to military installations. And for all new residential and business deliveries on city and rural delivery routes, the options of curbside or centralized delivery remain in effect. If a builder or owner chooses centralized delivery, the Postal Service will purchase, install and maintain pedestal mounted NDCBUs and parcel lockers, unless the customer has made prior arrangements to install some acceptable form of centralized delivery equipment.

We are presently engaged in a study to determine the current costs of various delivery modes. The study began March 18, 1985 in New York City and was expanded nationally on April 15. Specific data will be collected by route type and delivery mode. This will enable us to evaluate the costs involved in delivery to the door, to curbside boxes, in bulk, to VIM rooms, to boxes located behind the sidewalk, to parcel lockers, to NDCBUs, to delivery centers, to apartment style boxes, and to grouped boxes. Management Sectional Centers will supply information as to the costs associated with NDCBU maintenance.

A final report is expected in late September. We will be happy to share this information with you as soon as it becomes available.

This concludes my statement. My colleagues and I will be pleased to answer any questions you have.

Mr. ENGLISH. Thank you very much, Mr. Walker.

First of all, Ms. Uemoto, would you explain to me why the Postmaster General did not attend today since we specially requested him, and we know his calendar was free at the time the request was made?

Ms. UEMOTO. I can't address the issue of what his calendar was like. I do know he had quite a busy schedule. However, I think the decision was based on the need to get information before you from individuals closer to where the decisions are being made. and the three of us represent the officer-level individuals who actually make decisions in these three areas.

Mr. ENGLISH. But it was our feeling that we had specific questions for the Postmaster General that none of you were qualified to answer, and that point was made known to the Postal Service.

Ms. UEMOTO. I don't have any knowledge of that and I really could not respond to that.

Mr. ENGLISH. A year ago the Postal Service decided to sell E-COM and a buyer could not be found. Now the Postal Service is saying that it will start, and I emphasize the word "start," to terminate E-COM; and the Postmaster General says that termination will be completed in 90 days, if a buyer does not materialize, within 90 days.

When did the 90-day period begin?

Ms. UEMOTO. The letters terminating those contracts went out on June 4, 1985.

Mr. ENGLISH. The clock started running on June 4?

Ms. UEMOTO. That is right.

Mr. ENGLISH. Is it your interpretation that you need another PRC approval?

Ms. UEMOTO. Yes.

Mr. ENGLISH. Why is that the case?

Ms. UEMOTO. I should temper my answer by saying that we believe that we need to go again to the Rate Commission for a reconsidered decision because the circumstances under which the termination will be occurring are different from the ones that we had postulated when we went before the Rate Commission the previous recommended decision.

Mr. ENGLISH. How do they differ?

Ms. UEMOTO. In the prior decision, we had postulated that we were going to attempt to sell the system, and that the probabilities of doing so were good. As a result, the market conditions would have been quite different from what we are now postulating, which is to close down the system altogether.

Mr. ENGLISH. That case in which you made that point—that the chances were good—left the option then, that you might not be able to find a buyer and the PRC made its judgment based on the fact that you might not be able to find one. Is that true?

Ms. UEMOTO. That interpretation is definitely a possibility. That is what we are looking at.

Mr. ENGLISH. Does that keep the clock ticking, extending the 90-day period, if you make the determination you have to file with the PRC again?

Ms. UEMOTO. Not really, because that 90-day period is a management recommendation to the Board of Governors and is being timed based on the notice period for those dedicated-access agreements. Our expectation is that we should get a decision back from the Rate Commission in a much shorter period of time. They were the notices sent on June 4.

Mr. **English.** In the event that a buyer does materialize, what selection criteria will the Postal Service employ in deciding whether to accept the offer or not?

Ms. **Uemoto.** The selection guidelines were made public and have always been the basis of our discussions with potential buyers. They were as stated in the offering document which was released in October 1984.

Mr. **English.** Didn't that also contain a provision that the Postal Service was looking for a single buyer from whom it could recover its initial investment?

Ms. **Uemoto.** Yes.

Mr. **English.** Is that still the criteria?

Ms. **Uemoto.** My recollection of what we said about the financial aspect is that I am not so certain it includes a complete recovery of our financial position. However, the financial proposals are very poor. We would like to be able to get to a financially viable agreement with a buyer and, yes, those are still in place.

Mr. **English.** But it is not critical that you completely recover all of the financial investment?

Ms. **Uemoto.** Based upon that document, a favorable financial picture would not necessarily mean a complete recouping of the funds that we spent in putting the service together.

Mr. **English.** Is there any possibility that in the absence of a sale, that E-COM will still be limping along after the Postmaster General's 90 days have passed?

Ms. **Uemoto.** Given the kind of instructions that we are operating under, I would say absolutely not.

Mr. **English.** Absolutely what?

Ms. **Uemoto.** Not.

Given those factors that are under our control. There here are things that could happen to us that may force us into taking actions to keep the system up. I don't foresee any of them at the moment, and given management's druthers, it would not be up.

Mr. **English.** What actions?

Ms. **Uemoto.** There are lots of parties in the private sector who have an interest in the system being maintained, and any legal action on their part to stop us from curtailing the system may in fact have that effect.

Mr. **English.** I have some additional questions, Ms. Uemoto, but I will let my colleagues ask questions now.

Mr. Miller.

Mr. **Miller.** Thank you, Mr. Chairman. One question, Mr. Chairman.

Ms. Uemoto, I have been reading some of these papers trying to come up to speed as a new member of the subcommittee, and maybe you can help me understand something here. In your statement and other documents, it discloses that the E-COM system is not operating in a self-sufficient manner.

You also stated that the Postal Rate Commission made a proposal to raise the rates so that the system would operate on a paying basis, and that proposal was rejected, and you are now trying to sell this system, and there may not be any buyers for it.

Why was the Postal Rate Commission's proposal to continue the operation on a paying basis rejected?

Ms. **Uemoto**. My answer is based on what we assume to be the effect of the rates we would have implemented under the Rate Commission's recommended decision.

Based upon some experience in the marketplace and with some understanding of how the market was responding to the service, it was our judgment that a price increase of the sort recommended by the Rate Commission would have the effect of dampening volume and volume growth to the extent that, given even higher rates, we would still not make it a going operation.

What we were doing was balancing the price versus service in a very price-sensitive marketplace.

Mr. **Miller**. So you made a decision that this operation just could not be self-sufficient?

Ms. **Uemoto**. No, our decision was that at a lower price we could attract sufficient volumes so that the level of volume would more than make up for the differences between the Rate Commission price and our price.

Mr. **Miller**. That did not happen?

Ms. **Uemoto**. No; it did not happen at all. As a matter of fact, we did not implement the Rate Commission decision, and at that point we also announced that we are going to try to find a buyer. At that point, we did a lot of things to stop all marketing and development efforts and as a result, we have been in a holding pattern over the last year.

Mr. **Miller**. If no buyer is found, then is there any interest in reconsidering whether you can operate it at a higher rate on a self-sustaining basis?

Ms. **Uemoto**. There are segments of the Postal Service who believe that that might be possible. However, given the management decision, I think that that decision is clearly precluded at this stage.

Mr. **Miller**. So it is going to cease operating and the customers won't have that service, and they won't have a chance to buy it at a higher rate or some buyer will come along?

Ms. **Uemoto**. That is right.

Mr. **English**. Mr. Spratt.

Mr. **Spratt**. Thank you, Mr. Chairman.

As I understand it, the Postal Service has acquired the services of Booz-Allen & Hamilton, or one of their subsidiaries in procuring interested parties who might care to purchase E-COM. I don't believe your testimony discusses the basis of the fee that Booz-Allen will be paid in this case.

Ms. **Uemoto**. Yes, Booz-Allen has been paid up until some recent period—probably up until the last month—approximately $400,000.

If a buyer had been found, they would have been paid a certain percentage of the purchase price.

Mr. **Spratt**. Can you disclose the percentage arrangement if they are successful in finding a buyer?

Ms. **Uemoto**. I could not give you the correct information right at the moment.

Mr. SPRATT. It would be helpful to have it submitted for the record. In August 1984, an E-COM status document indicated that laser printers would be on line in fiscal year 1985. Has that actually be accomplished?

Ms. UEMOTO. No, the development plans, as well as all of the future oriented work we were doing, were stopped as of the decision in June 1984.

Mr. SPRATT. Thank you very much, Mr. Chairman.

Mr. ENGLISH. Thank you, Mr. Spratt.

Ms. Uemoto, the best we can calculate, E-COM has been operating at a loss of about $70 million and that each month it adds about another $1.5 million in red ink.

What specifically would the Postal Service be doing between now and the actual sale or the termination to limit the operating losses?

Ms. UEMOTO. We have a plan that will slowly reduce operations, first by closing down one of the sites and then by phasing out operations by tour and then by day so that eventually the operating time and the operating days will be shortened.

Mr. ENGLISH. And who is the accountable official for E-COM, both for continuing the operation, and the sale or termination of it?

Ms. UEMOTO. At the officer level, Jim Jellison, Senior Assistant Postmaster General for Operations is still the cognizant official for the operation of the E-COM system.

The divestiture process is being handled by Mike Coughlin, the Senior Assistant Postmaster General for Employee and Labor Relations. There was a change in function for lots of us in February, but many of us maintain some of our work in E-COM because of our knowledge of the system. Mr. Coughlin had begun work on divesting the E-COM system while he was our senior financial officer and continues to maintain that function.

Mr. ENGLISH. Two years ago the Board concluded that the then and current E-COM rate of 26 cents was insufficient. The Board proposed to increase that to 31 cents. The Postal Rate Commission recommended a substantially higher rate which the Board of Governors rejected.

Can you explain why the Governors did not at least move up to the 31 cents as originally planned?

Ms. UEMOTO. That is largely because it was not a decision from the Rate Commission. Legally, what would have had to happen for us to modify that Rate Commission decision was that there would have had to have been a second rejection of the reconsidered decision which we did have. Then, there would have had to have been a unanimous subsequent decision to modify the decision to implement a 31-cent rate. Instead of making that decision, the Governors made a decision to divest the system.

Mr. ENGLISH. Obviously that would have been a move in the direction of the Postal Rate Commission's recommendation; and there was a decision already made by the Board of Governors, so it would seem. It looks like you would have gone ahead and either made that vote or simply come back and countered, and suggested at least to move to 31 cents, but you did neither, you sat there at 26 cents and kept losing more money.

Ms. **Uemoto**. I have to agree with you. That probably would have been an appropriate decision for them to make.

Mr. **English**. You have no reason why?

Ms. **Uemoto**. None other than the decision was made to sell the system.

Mr. **English**. How much has the failure of the Board to move to the 31 cents, how much revenue do you figure that has lost?

Ms. **Uemoto**. I have some numbers on that. For fiscal year 1984 and this part of 1985, the 0.4-cent difference has cost us $1.5 million, based on the volumes during that period.

That number is probably a higher number than we should calculate because it did not take into effect the volume changes that would have occurred because of the higher rate.

Mr. **English**. Mr. Miller.

Mr. **Miller**. Ms. Uemoto, looking at the fact that no acceptable offers were received by the Postal Service, how far off were these unacceptable offers?

Ms. **Uemoto**. Without divulging information which would be commercially useful to some people, the problems fell into two categories. One, the absolute purchase prices were not, as we saw it, high enough and second, we did not have sufficient proof that the offerers had enough financial backing to make them viable in the marketplace.

Mr. **English**. Would the gentleman yield on that point?

Was that based on the criteria of the Postal Service recovering its full cost, that these offers were rejected?

Ms. **Uemoto**. It was based on that financial criteria, that——

Mr. **English**. In other words, offers that were made previously which were rejected because the Postal Service would not fully recover its financial investment may now within this 90-day period prove to be acceptable because that is no longer a major criteria?

Ms. **Uemoto**. No, no, that is not the case.

These particular proposals which we are talking about would still be unacceptable in this 90-day period for the two reasons that I stated. Our financial criteria was an acceptable level of financial recovery.

Mr. **Miller**. There was no condition in the offer as to the price that could be charged by the purchaser?

Ms. **Uemoto**. That is right.

Mr. **Miller**. The offerer could charge whatever rates it thought that the market could bear?

Ms. **Uemoto**. That is right.

Mr. **Miller**. If you do close down E-COM, how will the E-COM assets be treated, in the annual report and statement of condition of the Postal Service?

Ms. **Uemoto**. I don't know what we are going to do about those assets. We don't even have a disposal plan ready now.

Mr. **Miller**. You don't know if they are going to be any differently than they are treated now with E-COM operating?

Ms. **Uemoto**. We are depreciating and charging it as a cost to ourselves and my assumption is we might go ahead and do it all this year. I don't know the answer to that question, but we can provide you a more definitive answer on that. We are working on that issue.

[The information follows:]

ACCOUNTING TREATMENT OF E-COM ASSETS

All E-COM system assets were expensed on purchase and none are carried on the Postal Service's book as capital equipment. However, for rate making purposes, those costs which might reasonably have been considered as capital costs were amortized over time.

Mr. SPRATT. No further questions, Mr. Chairman.

Mr. ENGLISH. A couple of final questions, Ms. Uemoto, with regard to the divestiture offering document and related notices. The offering document and the subsequent E-COM message from Keith Strange to interested parties claimed that the Postal Service didn't have the authority to make system changes such as inserting reply envelopes; that the authority to do so had been denied by the Postal Rate Commission.

Didn't the PRC, in fact, approve the Service's reply envelope proposal, assigning a 4-cent fee?

Ms. UEMOTO. I don't recall whether or not the letter used the words "denied by the PRC," but the letter said we did not have the authority from the PRC to implement that service. Our thinking was that we needed to have a recommended decision and a decision by the Governors accepting that recommended decision in order to implement that service.

We did in fact have a recommended decision from the Rate Commission, but we did not have an acceptance of that decision by the Board.

Mr. ENGLISH. What, in effect, you are telling me is that your letter at very best was very misleading in laying it on the PRC. It came down to the Board of Governors; they are the ones that put a stop to it, not the PRC?

Ms. UEMOTO. Well, they did not accept the Postal Rate Commission's decision because they felt that the three parts of the decision could not be severed and parts of it implemented, and parts not implemented. As a result the decision as a whole was not implemented because the decision as a whole was not acceptable.

Mr. ENGLISH. The letter was very misleading when it said that the PRC, or that the Postal Service does not have the authority from the Postal Rate Commission to provide this service. Now, that is pretty darn misleading, at best. Some people would flat out say that is a lie, but I am trying to be kind and just say it is misleading.

It says right here, "Although the USPS does not have the authority from the Postal Rate Commission to provide this service * * *."

Ms. UEMOTO. Yes; in effect, it did not. It needed the decision by the Postal Rate Commission and a decision by the Board. The Board chose not to implement the Postal Rate Commission decision in part——

Mr. ENGLISH. Why don't we lay that on the Board?

Ms. UEMOTO. We could have done that as well.

Mr. ENGLISH. Wasn't that in error?

Ms. UEMOTO. You want me to admit an error? Sure. We will be more careful.

Mr. English. The Keith Strange E-COM message that I mentioned dated November 13, 1984, claimed the E-COM volume for fiscal year 1984 was just a shade under 25 million. Our figures, and those subsequently included in the comprehensive annual report, show the fiscal year 1984 volume as 22.7 million.

That is a 2.3 million difference, a little more than a shade?

Ms. Uemoto. Both figures are correct. The figures in the annual report are numbers sent to the E-COM system via commercial customers. The shade under 25 million were items we actually processed within the system including volumes that came from the Postal Service and other government agencies.

Mr. English. Any other questions?

One more from counsel, Ms. Uemoto.

Mr. John Wargo and Mr. Greg Whiteman just received nice PCES cash awards. Are these the same gentlemen who made all those E-COM volume projections over the last couple of years?

Ms. Uemoto. Yes.

Mr. English. Is that the reason they got the awards?

Ms. Uemoto. No; probably not. They do a lot of other things besides just marketing E-COM. Actually the work that was done projecting the volumes for E-COM was a relatively good piece of work in spite of what transpired factually. The volumes were projected based upon some system changes and product enhancements which never took place. The best we can say about the volumes are that we don't know what would have happened if we had been able to do what we wanted to do with the service.

Mr. English. Who is to blame for the fact you didn't do what you wanted to do, the Postal Service, the Board of Governors?

Ms. Uemoto. A combination of factors. But, the decision to try to sell the system stopped all of that and clearly prevented us from getting the kinds of volumes that we expected to get based on our previous plans.

Mr. English. Isn't it true that those estimates were based on best case scenarios?

Ms. Uemoto. No; we had a variety of them, and they were not all in the best range.

Mr. English. These were not the most optimistic figures, the ones they finally projected out, 50 million pieces a year?

Ms. Uemoto. I think that number was changed officially to 30 million.

Mr. English. Which one did these guys come out with?

Ms. Uemoto. At different times in the process, the numbers were different.

The estimates, for fiscal year 1983, or 1984, that it would be 30 million—and those numbers were not necessarily the most optimistic—were tempered by a lot of factors, including the need to build the marketplace.

Mr. English. The reason I kind of keep hammering away at that a little bit, you did not obviously base the decision on the 30 million volume, but on the 50 million. That is when you started the thing and decided to go with it and you came up with those numbers and somebody blew it.

Ms. Uemoto. Those numbers came at least 2 years after the decision to build the system was made. I came to my job a year after that decision was made, and those projections came during my tenure as director.

Mr. **English**. The thing that eats on me a little bit is how you could miss the mark that far, if this came 2 years after the decision had already been made, you would think that folks would have an even more realistic understanding of exactly what the volume was going to be, but at that particular point in time they missed it very badly. They could have saved us an awful lot of money if their estimates had been on line and we would have seen what a big loser it was going to be.

That is the reason I hit on that. When they gave out those cash awards, if you mess up like that, do they deduct points, subtract that, in other words? If you hit one right, you get so many points, and if you miss one bad, they subtract so many?

Ms. **Uemoto**. I can't answer the questions about those particular awards because I was not privy to the decision to give those awards. In those instances where I have been involved, we try to give those awards for a very specific achievement, and——

Mr. **English**. One deal, we don't look at the whole job?

Ms. **Uemoto**. In some cases, for a significant achievement, yes. In general, some of these are given for superior performance over a period of years. Under those circumstances, they do look at the whole thing.

Mr. **English**. Good conduct award?

Ms. **Uemoto**. More than good conduct. We all try to maintain good conduct.

Mr. **English**. Mr. Schiller, with regard to Intelpost, why do you think your bureaucratic counterparts over in the foreign postal service administrations have told you not to give this committee information on Intelpost volumes transmitted to the United States?

Mr. **Schiller**. Mr. Chairman, I can do better than tell you what I think. I can tell you the answer I got when I asked them.

Mr. **English**. What did they say?

Mr. **Schiller**. They said there were basically two reasons why they preferred not to give these volumes.

No. 1, they felt they were in competition with many rapid communication services and that this would be competitive information which they would just as soon their competitors did not have.

The second reason was that they did not give this information, nor were they required to give it, to their own legislative bodies. They did not, therefore, want to give to the legislative body of another country more information than their own congress or assembly gets. We have, however, provided to counsel data on the volumes from those countries, identifying those volumes not by name but by alphabetic letter.

Mr. **English**. In other words, other governments where this type of system is operating, are not as vigorous in their oversight of their services. Is that correct?

Mr. **Schiller**. I am an engineer and not a constitutional lawyer, so I don't know how that works.

Mr. **English**. The other question I would have, did they point out this specific subcommittee they didn't want you to give the information to or just the Congress?

Mr. **Schiller**. No, sir.

Mr. ENGLISH. Counsel handed me a note here pointing out that you have been denying us this information for a year or more.

When did you ask them that question about why they didn't want you to provide them with that information?

Mr. SCHILLER. The first time we asked that question that I remember was at a meeting in Washington in October of 1983.

Mr. ENGLISH. When was that again?

Mr. SCHILLER. In a meeting in Washington in 1983.

Mr. ENGLISH. You first asked them that question, 1983?

Mr. SCHILLER. Yes, sir.

Mr. ENGLISH. When did you provide the committee with that information?

Mr. SCHILLER. I believe, sir, it was in April or May of this year, after we were able to agree on this procedure of identifying countries by alphabetic letter rather than by name.

Mr. ENGLISH. We figured out which country is which. We are just not going to disclose that to the public.

Mr. SCHILLER. I thought Mr. Gleiman could figure that out.

Mr. ENGLISH. Intelpost's operating costs will be about $120,000 this year, down from $1.2 million last year. According to former Postmaster General Bolger, Intelpost cost $1.2 million in 1982, and $1.9 million in 1983; can you attempt to explain that extraordinary drop in the cost from last year? Can you explain the reason that you have for that substantial decrease from over and above where it was in 1982 to 1983?

Mr. SCHILLER. I most certainly can, sir.

It is almost exclusively attributable to a change in technology.

Until the beginning of this fiscal year, we were operating in a mode technically known as dedicated-link store and forward.

This technology involved expensive equipment in each gateway and a continuous payment of a dedicated link to an international carrier, whether we used that link or not.

In 1985, this fiscal year, we switched to a new technology where we have in facsimile receivers attached to the telephone network and that accounts for the appreciable decrease in cost from last year to this year.

Mr. ENGLISH. Through 1983, part of the costs were such things as advertising, research, and consultants, contract costs. All of that was part of the operating expenses. Now, here in 1985, and for 1984, is that still calculated to be a part of the expense of the operating service?

Mr. SCHILLER. Sir, you have me at somewhat of a disadvantage because the 1983 and 1982 figures occurred before I joined the Postal Service. To the best of my knowledge, advertising was never a portion of the cost. Research and consultant's fees, of course, were and still are.

What I can tell you from my own knowledge is that in 1984, advertising costs were not part of the operating costs, and they are not now, sir.

Mr. ENGLISH. I have a document here presented to us at an earlier hearing, a table. It says for fiscal year 1978 through fiscal year 1983, and it has down here at the very bottom promotions and advertising.

Mr. **Schiller**. You are reading it. I assume what you say is correct. I don't propose——

Mr. **English**. You can read it first, if you would like.

Mr. **Schiller**. I believe you without reading it. All I can tell you is that I joined the Postal Service in the second half of 1983 and since that time, I was advised of the policy not to include advertising costs.

Mr. **English**. Maybe then that explains why we have got a substantial decrease in some costs if we are not figuring in advertising and promotion—what about consultants, research?

Mr. **Schiller**. Consultants have always been included.

Mr. **English**. So it is advertising——

Mr. **Schiller**. Sir, that is not, I think, a conclusion that can be drawn. In 1984 the advertising cost certainly was not included.

Mr. **English**. How much was it?

Mr. **Schiller**. In 1984?

Mr. **English**. Yes.

Mr. **Schiller**. As I said, it is a little difficult, since we don't assign——

Mr. **English**. Give me a rough sum.

Mr. **Schiller**. Somewhere around $700,000.

Mr. **English**. You don't—consultants are included. That includes marketing consultants.

Mr. **Schiller**. No, sir, technical consultants.

Mr. **English**. How much on marketing?

Mr. **Schiller**. That would be included in advertising.

Mr. **English**. So you have $700,000 worth of advertising.

Mr. **Schiller**. In 1984 that is.

Mr. **English**. Then you got another $120,000. So we are getting back up there to close to a million dollars?

Mr. **Schiller**. The $120,000 is the total figure for 1985.

Mr. **English**. What was 1984?

Mr. **Schiller**. $1.2 million.

Mr. **English**. So you had $1.9 in 1984?

Mr. **Schiller**. If you figure the advertising cost in, yes.

Mr. **English**. The 1985 figures would be up to date?

Mr. **Schiller**. Through the end of the fiscal year with the modification I discussed in my statement.

Mr. **English**. The drop from 1983 to 1984 is due to the elimination of advertising?

Mr. **Schiller**. No; it was an increase actually.

Mr. **English**. In 1983, you had $1.9 million your statement says, and in 1984, $1.2 million. You throw in advertising, that is another $700,000.

Mr. **Schiller**. That is not the reason. In 1983—and again this precedes my time—the Postal Service added three additional sites in Chicago, San Francisco, and Houston. Using the old system, adding a new site was a very expensive proposition because you add computers, satellite links, and additional personnel, et cetera. So the high cost you see in 1983 is primarily a one-time cost for adding these new sites.

Mr. **English**. OK. When you include everything, the whole deal, get the whole package together, anything that has been—whether it is advertising, consultants, whoever it might be, and whatever it might be, how much is that going to be, the whole package for this year?

Mr. **Schiller**. Although our expenses are not complete, we estimate we will spend approximately $525,000 on advertising, consulting—this package.

Mr. **English**. For this year?

Mr. **Schiller**. Yes; that is an estimate.

Mr. **English**. How much for everything else?

Mr. **Schiller**. $120,000.

Mr. **English**. $120,000——

Mr. **Schiller**. That is the projected operating expense, which includes everything, and the rest is the figure we don't attribute——

Mr. **English**. $645,000 is the full package.

Mr. Miller, I am going to let you ask a few questions.

Mr. **Miller**. You said you replaced the hardware you used. What have you done with the old hardware?

Mr. **Schiller**. There is not a single answer to that question. There are two answers to that. Part of that hardware was transferred to our training facility in Norman, OK, where it will be used to train postal personnel in modern technology—on computers and things like that. Others have been declared surplus and are being surplused.

Mr. **Miller**. In your prepared statement, you talk about the volume from foreign countries to the United States often growing faster than our own. But in the accounting period figures that you have given us for all these foreign countries, it is very hard to see a growth trend in more than one or two. So on what do you base the statement that the volume is often growing faster than our own?

Mr. **Schiller**. I have looked at the individual countries from that viewpoint, but their volume has traditionally been twice as big as ours. Their total volume is not only volume to our country, but volume to other countries. The total is much larger because they also have a substantial domestic facsimile service, which we, as you know, do not have in this country.

To give you an example of that, Switzerland, in 1984, will transmit approximately 100,000 pages both domestic and international. Much higher than ours.

Mr. **Miller**. That doesn't benefit us.

Mr. **Schiller**. No, sir, it does not. It doesn't affect us.

Mr. **Miller**. So the volume grows in foreign countries but not the volume we send them.

Mr. **Schiller**. First of all, the volume doesn't benefit us financially particularly. We don't get paid for volume that we receive. The international agreement is that with the low volumes that exist at the moment, the payment is on a sender-keep-all basis. The decision was—and I think it is a correct one—that with the low volume, the accounting would be a more complex and costly procedure which would more than balance off the costs. When the volume goes up, I am sure we will change that.

Mr. **English**. Thank you, Mr. Miller.

Mr. Miller referred to the volume, and as you correctly pointed out, outgoing volume is where we get our revenue. The incoming volume doesn't do us a lot of good, but it carries a lot of expense with it, doesn't it?

Mr. **Schiller**. Sir, I don't quite see that, particularly now with the volume levels we are talking about. With incoming volume, there are two kinds of expenses that are involved, one at the receiving gateway. A postal employee, in addition to his other duties, takes the sheet of paper out of the machine, puts it in an envelope and puts it in the mail stream. The rest is an incremental cost in the mail stream. I don't have a calculator with me, but there are something like 20,000 pages of mail. That means that there are probably 10,000 Intelpost messages, 10,000 letters, out of 130 billion messages, so the incremental cost for handling the traffic is lost in the ninth decimal place, or something like that.

Mr. **English**. But you still, though—it costs something to handle the process of incoming——

Mr. **Schiller**. There is no question it costs something to process it, but the number is so small as not to be detectable. It just goes in the mail stream, so you have another piece of mail.

Mr. **English**. What about the guy that does all this folding and stuffing that you are talking about?

Mr. **Schiller**. He does that in addition to his other duties. It constitutes a minuscule part of his duties.

Mr. **English**. In other words, we don't have enough volume to bother that much?

Mr. **Schiller**. No, sir, we don't.

Mr **English**. But at the same time, we don't charge that off against Intelpost, do we?

Mr. **Schiller**. No, sir. We wouldn't know how.

Mr. **English**. He doesn't use enough of his time each day to calculate out, but you are going to use 10 percent of your day stuffing or——

Mr. **Schiller**. We do this for the outgoing traffic. That is a fair amount of work.

Mr. **English**. What about the incoming? That is where the heaviest traffic is.

Mr. **Schiller**. It doesn't take much time from the postal clerk. He takes a message out of the machine, puts it in an envelope, and puts it in the mail stream. On the outgoing, the clerk has to talk to the customer, help him fill out a transmittal sheet, and then send it to the mail room. That often takes a fair amount of time. So what we do compute is a variable cost as part of our transmission cost.

Mr. **English**. Which still brings us to the point you have a fellow spending part of the day stuffing and don't count that. That is where the greatest volume is.

Mr. **Schiller**. Yes, but the amount of time spent is much less on the incoming mail than the outgoing mail. Much less.

Mr. **English**. The question arises with the new improvements that you have made with the system, before we do all this dialing and calling, why do we have all the greater cost taking place on the outgoing as opposed to the incoming? You have got all this new equipment, and it does all these marvelous things. All we do is call up, and here we go. Why is that so much more expensive than that fellow tearing and stuffing?

Mr. **Schiller**. As I think I said a few minutes ago, what happens if you, sir, go to the post office window and want to transmit an

Intelpost message is you fill out the transmittal sheet. As a customer, you probably don't know how to do that and you would require the help of a postal employee to assist you and to evaluate whether the particular information you want to send is even suitable for transmittal by facsimile. That takes time.

The way we have computed that cost is a very standard method in the communications business. We have a fixed cost which always stays the same—the rental cost of equipment, et cetera—plus the variable cost which includes the communication cost plus the cost of the time spent by the employee to handle the mail. That cost comes to—I am speaking somewhat from memory, so please don't hold me to this figure—somewhere around 40 or 50 cents a letter.

Mr. **English.** Well, I am intrigued with that fellow that comes in there and uses that service.

If I went down to my district in Oklahoma and went down the street and started asking folks, "How many of you folks use Intelpost," they wouldn't know what in the world I was talking about. They wouldn't have any idea what in the world I was talking about. And I sincerely doubt you are going to have them wandering into the post office saying, "Hey, I want to send an Intelpost message."

I would imagine people who are going to be using this service are sophisticated type folks, folks who do international type transactions, and they are going to have a pretty good knowledge of this service and probably going to be repeat customers. So I question whether you are going to have this fellow wandering in off the street there and somebody sit down and go through with him and fumble around with all this. I bet you he is going to have his act pretty well together. He knows what he has to do, when he has to do it. He is going to have his message laid out, and there he goes.

Mr. **Schiller.** I am sorry we don't have—the reason is not everyone has access to Intelpost.

Mr. **English.** No one knows what it is.

Mr. **Schiller.** He has no place he can go to use the service. This is our fault unfortunately that people do not know how to use our service. We have not yet been successful enough in making a case——

Mr. **English.** Let me ask you the question. Put it this way. What percentage of your customers are repeat customers?

Mr. **Schiller.** I am embarrassed to say that I don't know the answer. I should and I will find out for you.

Mr. **English.** I think it would be a good idea to check on that. If you have a high percentage of repeat customers, obviously you don't want to go through this process we are talking about. I think it is an important fact—it is important for us to know, doubly important for you all to know. So I wish you would check into that and provide the committee with that information.

Mr. **Schiller.** I will be glad to provide that information for the record.

[The information follows:]

The Postal Service does not maintain information on which of its Intelpost customers are repeat customers. The Service only keeps records of those who maintain Intelpost trust accounts. However, based upon general information obtained from those familiar with Intelpost retail operations, it is estimated that approximately one-third of all Intelpost customers are repeat users of the service.

Mr. **English**. Do you have any questions you would like to ask?

Mr. **Miller**. Yes. In an earlier investigation, as I understand it, this committee found that one of the shortcomings of Intelpost was the lack of privacy. In April 1985, we have Mr. Lee telling the Board of Governors that privacy is a strength of the Intelpost system. So what are the changes that have been made to improve the privacy situation, Mr. Schiller?

Mr. **Schiller**. There are two issues in privacy. One is the privacy provided by the handling of Postal Service employees both here and abroad. As a newcomer to the Postal Service, I am continually impressed by the integrity of just that service. It is absolutely a sacred writ that nobody but nobody touches the message that is transmitted or that comes in. That is a tradition which certainly does not exist in any other company except the Postal Service and in postal administrations abroad.

The difficulty that we face has to do with the transmission itself. There is no question that our transmission is not secure any more than the transmission of any other facsimile service, be it private or governmental.

This happens to be my area of technical expertise. It would take no effort of any consequence to find out what message is being sent out by either us, by Federal Express, or by anybody else. It is a reasonably simple technical task to do that. There is hope. There are technical developments now taking place.

At a recent meeting, representatives of the National Security Agency have agreed that they would make some of their encoding algorithms available to communications. When that is done, then transmission secrecy will indeed be preserved. Once that is done, the integrity of the Postal Service will guarantee the rest.

What Mr. Lee said—and I think I have his statement with me—is that in the future, we will be the only ones able to provide full privacy because of the integrity of the Postal Service employees.

Mr. **English**. Mr. Schiller, we have about three more questions here to ask you. Your discussion on the Intelpost break-even volume seems to be $5 per page charged for messages, I believe.

Mr. **Schiller**. Yes, sir.

Mr. **English**. In January of 1984, the Postal Service made a major announcement about volume discounts. It was in a memo to mailers. I think we have a copy of it right here. Yes, right there. And it says for 200 pages a month, they will give you a discount price of $3.50 per page. Did you factor volume discounts into your break-even figure?

Mr. **Schiller**. No, sir, we didn't and for a very good reason. We had no takers. We had one customer who kept the service for, I believe, 3 or maybe 4 months.

Mr. **English**. One?

Mr. **Schiller**. One, yes.

Mr. **English**. What does that do to your estimate costs for the year? I believe it is 645,000 for the year; 525,000 plus 120,000.

Mr. **Schiller**. The volume figures we presented to you were just volume figures we estimated, whether or not they were from a subscriber or from the general public.

Mr. **English**. Did you do advertising on this volume discount?

Mr. **Schiller**. No, sir, we haven't.

Mr. **English**. Was there any done in the past?

Mr. **Schiller**. To the best of my knowledge, we have never advertised. We have sent representatives out to tell customers about it. The difficulty with that kind of thing, as we learned, is that customers were afraid to obligate themselves to a particular volume. A better strategy would have been to let them use the service and, as the volume grew, to offer them the discount.

Mr. **English**. Does the Postal Service do any marketing analysis before you launch into those deals, or do you throw it out there and see if anybody jumps on it?

Mr. **Schiller**. Of course, we do marketing analysis in most instances. In this case, the Postmaster General authorized us to do this on a trial basis to see what would happen. The best way to do market analysis in this instance is to go out and try it.

Mr. **English**. It is kind of expensive, too.

Mr. **Schiller**. No, sir, it is less expensive than to pay a consultant $200,000 or $300,000 to do an analysis.

Mr. **English**. You would rather be out there, hit and miss, instead of having a direction and having people tell you this is what you can expect to take place.

Did we do a marketing analysis on E-COM, or was that groping around?

Ms. **Uemoto**. There was a lot of marketing analysis done. But, we are making projections in areas sometimes not very well known and sometimes they don't come true.

Mr. **English**. Maybe you are right. You may be right. We might well be groping in the dark, you don't know. Maybe that proves you are right on that. We will take a look at that. That is interesting.

Also, Mr. Schiller, the Postal Service's comprehensive annual statement for 1984 states, and I quote, "The results of this effort, the so-called Manhattan advertising blitz, was a tripling of the New York City originating volume compared to fiscal year 1983."

I have been having some difficulty substantiating the claim from the volume figures you have given the subcommittee. We can't find any tripling of the volume on a sustained basis. Can you help us out on that?

Mr. **Schiller**. Yes, sir, I am not surprised, because we haven't given you volumes broken down by site. We have given you volume only on an overall basis.

Mr. **English**. Have you had any decreases at the same time any place else?

Mr. **Schiller**. We have not had decreases, but we have not had substantial increases in other places.

Mr. **English**. Counsel is pointing out to me, Governor Voss sent us this little document here, and we don't see any evidence——

Mr. **Schiller**. I can't see what it says.

Mr. **English**. It says "Intelpost, Telecommunications Report, Board of Governors, U.S. Postal Service, Peter Voss," and it is dated June 4, 1984.

Mr. **Schiller**. I now recognize the document. This was a document which was prepared by a staff member of Governor Voss from a private company who had asked to look at this. And I must confess, this was a privately distributed report to the Board of Governors and I have not had an opportunity to study it in detail.

Mr. **English**. He didn't know any tripling had taken place in New York City, in other words. How come he didn't pick it up?

Mr. **Schiller**. It was a she, as a matter of fact. I don't know.

Mr. **English**. Excuse me. Why didn't she pick it up?

Mr. **Schiller**. I don't know.

Mr. **English**. That is a pretty substantial jump.

Mr. **Schiller**. If you like, we can produce summarized data for you on a——

Mr. **English**. You got this provided, and we got decisions being made here by the Board of Governors on this little document—it has got U.S. Postal Service stamped on the front of it. It kind of makes it look official.

Mr. **Schiller**. It is not. It is a document written by a staff member of Mr. Voss.

Mr. **English**. It has got weekly volumes, but we don't see any tripling reflected.

Mr. **Schiller**. It is difficult for me to comment on this without seeing it. I will be happy to study the document and provide you comments on it.

Mr. **English**. You are aware of the document, aren't you?

Mr. **Schiller**. Yes, in general terms.

Mr. **English**. That didn't jump out at you as being kind of strange they didn't reflect these big increases you have had in New York City?

Mr. **Schiller**. This is a document of the Board of Governors which was not distributed to the staff of the Postal Service. It is a private study of the Board of Governors.

Mr. **English**. I know. But they have something to do with you folks, don't they?

Mr. **Schiller**. The Board of Governors? Yes, sir.

Mr. **English**. I kind of thought maybe they did. In fact, some folks might think they are supposed to have some real impact on running the show over there.

Mr. **Schiller**. The Board of Governors has indicated that they will make a final decision on what to do with Intelpost by the beginning of, not the coming year, but the fiscal year after that, fiscal year 1987.

Mr. **English**. In the summary of his presentation to the Board, Mr. Lee stated that Intelpost, and I quote, "performs as well or better than other international facsimile services."

Can you expand on that comment?

Mr. **Schiller**. Yes, sir. There are, at the moment, only a very few facsimile services operating on an international basis. I will tell you the ones I am familiar with. There may be more I am not familiar with.

There are two services operated by ITT; one is called Fax Pack, I believe. I am not sure of the names. Their volumes are, to the best of my knowledge, lower than ours. There is a service provided by RCA that is now reduced to, I believe, a single site with no very high volumes.

There are services which it is said are going to be offered by Federal Express, but they are still in the planning stage. So there is not a big world of international facsimile services out there.

Mr. English. Could you tell us who your major competitors are? Can you name them?

Mr. Schiller. Yes; ITT and RCA, at the moment.

When you ask me the question again next year, I think you will have different names. At the moment they are the ones.

Mr. English. Does MCI get into it at all?

Mr. Schiller. No, sir, they do not. MCI has an international text-based service. They do not at the moment have an international facsimile service.

Mr. English. Thank you very much.

Mr. Walker, you still with us?

Mr. Walker. Yes.

Mr. English. We have been kind of neglecting you, and I apologize for that.

Mr. Walker, what kind of garbage collection services do you have? Do they pick up your garbage cans at your house, do you carry them down to the street or to a local corner, or what?

Mr. Walker. So far I take them to the curb.

Mr. English. Just take them down to the curb. That is what I do. I did that this morning.

Do you have electricity, gas, and water piped up to your house?

Mr. Walker. Yes, I do.

Mr. English. Everything is right there at curbside, or right into the house. A good utility. Any good utility would do that, wouldn't they?

Mr. Walker. So far.

Mr. English. If you were moving into a new home in a new development and you were told that you had to take the trash down to the corner and run a hose from a fire hydrant up to your house to get water, or put an extension cord of some kind for electric to a utility pole—are the services in your new home equal or an improvement over the services provided to our old home?

Mr. Walker. Ostensibly, Mr. Chairman, the answer to that would be equal.

Mr. English. Equal?

Mr. Walker. One would have to understand what the tradeoffs were.

Mr. English. Why don't you tell me what kind of tradeoff you got, how this is going to benefit you to run the fire hose up to your house and how it is going to help you run an extension cord to a light pole on the corner to get your electricity? How is that an improvement?

Mr. Walker. Since it is a hypothetical question I will give you a hypothetical response. It may have a cost benefit.

Mr. English. If you are paying the same price you did in your old house? If I were paying the same price I was paying in my old house, I might certainly think twice about it.

Mr. Walker. Something like that.

Mr. English. And if you get door-to-door delivery of mail to your old home and if you were told you have to pick up the mail at the post office 5 miles away, would that be a plus or minus?

Mr. **Walker**. I think I would look at that as a minus.

Mr. **English**. And would you call 1 million delivery points a substantial or significant number?

Mr. **Walker**. It would depend on what context you put it in. In the overall context of our delivery base, I wouldn't call it substantial. It would be approximately 1 percent.

Mr. **English**. Well, now, how many would you say substantial is, or significant?

Mr. **Walker**. I couldn't—that would be a relative term.

Mr. **English**. I mean you are in the postal business, you know all about delivery points. What is a significant number of delivery points?

Mr. **Walker**. I would probably consider it significant based on whatever the impact was. One percent of the delivery points isn't significant.

Mr. **English**. Fifty percent?

Mr. **Walker**. Fifty percent, maybe.

Mr. **English**. What about 20 percent, 10 percent?

Mr. **Walker**. Fifty percent, twenty-five percent, perhaps.

Mr. **English**. Ten percent?

Mr. **Walker**. Maybe.

Mr. **English**. Maybe not?

Mr. **Walker**. One percent, three percent, again, that would have to be defined in terms of relative volume.

Mr. **English**. Fourteen million, is that significant?

Mr. **Walker**. It is more significant than 1 million. It is 3 percent of the delivery base.

Mr. **English**. Could you outline for us the Postal Service's long-range plan for long-range deployment of cluster boxes?

Mr. **Walker**. The plan for deployment of cluster boxes is to utilize cluster boxes as a part of overall growth management strategy, growth management beginning——

Mr. **English**. I want the numbers. What are we going to do, what, when, what year?

Mr. **Walker**. Numbers are dependent on a number of conditions. The cluster boxes are part of an overall strategy where it makes sense in terms of the policy, where it's in sync with the policy, you could probably speculate on numbers. You would also have to speculate on whether people would accept them or not.

Mr. **English**. You don't speculate, you plan.

Mr. **Walker**. You estimate and plan, that is correct.

Mr. **English**. What are you planning on in the way of cluster boxes over the next 10 years?

Mr. **Walker**. Our speculation—I am not trying to hedge.

Mr. **English**. When you use the word "speculate," that is hedging.

Mr. **Walker**. Plan, speculation, the plan—the absolute plan—is to utilize some form of centralized delivery as much as possible. The NDCBU's again are part of the centralized delivery strategy.

I can't pick that number off for you as an absolute. We estimate that as we go through each year, 60 to 70 percent of the new deliveries would go into some form of centralized delivery. That can range from NDCBU's to boxes that we serve at apartment houses. That is all part of centralized delivery.

Mr. **English**. As I understand it, last September your predecessor presented the Board of Governors with a 10-year plan. What I would like you to do is provide this subcommittee with a copy of that 10-year plan, as it was presented to the Board of Governors.

Mr. **Walker**. I will get it, if I can.

Mr. **English**. It is my understanding, also, 14 million delivery points were being discussed in that proposal, part of that proposal.

Mr. **Walker**. As I indicated, if we look at 60 to 70 percent going into centralized delivery—that is our estimate—over that period of time, with a continuing estimate of approximately 1.5 million new deliveries per year, that may be a fair number.

But I will see what I can do about getting the presentation to the Board of Governors. I am not familiar with those specifics.

Mr. **English**. You are not familiar with your predecessor's proposal?

Mr. **Walker**. I was not here.

Mr. **English**. You reviewed what your predecessor did, didn't you?

That is kind of important when you go up before the Board of Governors. We just established that these folks have something to do with your job, they are important. Surely your predecessor—when did you come on board?

Mr. **Walker**. Two months ago. Three.

Mr. **English**. Nine months ago your predecessor went up before the Board of Governors. That is not the reason he is gone, is it?

In any event, it was important. And surely you have reviewed what his proposal was to the Board of Governors, haven't you?

Mr. **Walker**. No, I haven't.

Mr. **English**. You might look that over, and if you could present us with a copy of that, I would appreciate it.

Mr. **Walker**. OK.

[The proposal follows:]

INTRODUCTION

AT THE JULY BOARD MEETING, I ADVISED YOU THAT WE WERE CONTINUING OUR EFFORT TO EXAMINE ALTERNATIVES TO OUR PRESENT POLICY OF USPS PURCHASE AND INSTALLATION OF CENTRALIZED DELIVERY EQUIPMENT. IN ADDITION, SOME QUESTIONS WERE RAISED ABOUT OUR INVENTORY OF THIS EQUIPMENT.

LET ME FIRST OF ALL PROVIDE INFORMATION ON OUR INSTALLATION EXPERIENCE AND INVENTORY.

THIS SLIDE DEPICTS THAT WE HAVE, DURING FY 84, INSTALLED 73,798 NDCBUS AND WE PLAN, DURING THE BALANCE OF THIS YEAR TO INSTALL 21,226 FOR A TOTAL OF 95,024 UNITS. NEXT YEAR OUR PLAN IS TO INSTALL 103,000 UNITS.

THIS SLIDE DEPICTS AN AVERAGE NDCBU EQUIPMENT INVENTORY OF 127 DAYS AND AN AVERAGE ON ORDER OF 127 DAYS.

THIS INVENTORY, PLUS AMOUNT ON ORDER, NEEDS TO BE VIEWED AGAINST AN AVERAGE DELIVERY TIME CYCLE WHICH IS 140 DAYS FROM THE TIME THE INITIAL REQUISITION IS COMPLETED UNTIL MANUFACTURER DELIVERS TO US. THE RANGE OF DELIVERY TIME FOR MANUFACTURERS HAS BEEN 60 DAYS TO 200 DAYS.

IN THE PERIOD 1981 THROUGH 1984, WHICH IS AFTER OUR RULE CHANGE, OUR EXPERIENCE HAS BEEN:

- NUMBER OF NDCBUS -- 215,000 UNITS
- COST AVOIDANCE -- 166.5 MILLION (INCLUDES COST AVOIDANCE FOR UNITS INSTALLED PRIOR TO 1981)
- DELIVERIES IN NDCBUS -- 2,687,500
- FROM 14 MANUFACTURERS

PRIOR TO THE 1981 PERIOD FOR 13 YEARS OUR EXPERIENCE WAS:

- NUMBER OF NDCBUS -- 11,700
- NUMBER OF DELIVERIES TO NDCBUS -- 146,250
- FROM 5 MANUFACTURERS

THIS SLIDE, OPTION A, DEPICTS A CONSERVATIVE 10 YEAR PROJECTION OF WHAT WE WOULD EXPECT TO ACCOMPLISH WITHOUT ANY CHANGE TO OUR PRESENT APPROACH. IF WE CONTINUE TO PROCEED WITH THIS STRATEGY, WE CAN EXPECT A COST AVOIDANCE OF APPROXIMATELY 3.4 BILLION DOLLARS OVER THE NEXT 10 YEAR TIME FRAME. WE BELIEVE THIS MAKES A SIGNIFICANT CONTRIBUTION OVER TIME TO RATE STABILITY.

DURING THE LAST TWO MONTHS, WE HAVE MADE EXTRA EFFORTS TO CONTACT SOME 20 MAJOR BUILDERS IN THIS COUNTRY. WE HAVE FOUND ONLY 4 OF THEM TO BE INITIALLY RESPONSIVE. OF THESE FOUR, 3 INDICATED THEY WOULD TRY VERY HARD TO WORK WITH US IN ANY WAY WE NEEDED TO WORK. ONE DID NOT WANT ANY PART OF SUCH AN ALLOWANCE ARRANGEMENT. THIS EXPERIENCE THUS FAR HAS NOT PROVEN TO BE VERY ENCOURAGING.

UNDER OPTION D, WE WOULD RETURN TO THE SITUATION WHICH EXISTED PRIOR TO 1981. AND OUR EXPERIENCE HAS SHOWN OF THAT 13 YEAR PERIOD PRIOR TO 1981, VERY FEW NDCBUS WERE INSTALLED EVEN THOUGH THE POSTAL SERVICE MADE EXTRA EFFORTS TO PUBLICIZE THE POTENTIAL EFFICIENCIES OF THIS APPROACH.

THIS SLIDE REPRESENTS A RECAP OF THESE FOUR MAJOR OPTIONS. IT SHOULD BE POINTED OUT THAT WE DO HAVE EXTENSIVE EXPERIENCE WITH OPTION A AND OPTION D AND, THEREFORE, WE BELIEVE WE CAN REASONABLY PREDICT THE IMPACT OF EITHER OF THESE OPTIONS.

IN SHARP CONTRAST, WE HAVE NO EXPERIENCE WITH PROVIDING AN ALLOWANCE TO THE BUILDERS UNDER OPTIONS B AND C, BUT HAVE MADE OPTIMISTIC ASSUMPTIONS ABOUT THEIR PARTICIPATION IN THIS PROGRAM. NEVERTHELESS, THE MOST SIGNIFICANT COST AVOIDANCE IS REALLY AVAILABLE TO US UNDER OPTION A.

PIE CHART:

THIS CHART SHOWS A BREAKDOWN OF THE TYPES OF DELIVERY MODES WE HAVE. I NEED TO POINT OUT THAT OVER TIME WE HAVE PURCHASED APPROXIMATELY 14 MILLION POST OFFICE BOXES FOR USE BY OUR CUSTOMERS AND HAVE PROVIDED NDCBU SERVICE TO 2.7 MILLION CUSTOMERS (215,000 NDCBUS). (EXCLUDING UNITS INSTALLED PRIOR TO 1981)

I HAVE ATTEMPTED TO PROVIDE A STATUS REPORT OF WHERE WE ARE AND OUR EFFORTS TO EXAMINE OTHER ALTERNATIVES. ARE THERE ANY QUESTIONS?

NDCBU PROCUREMENT OPTIONS

Executive Summary

The United States Postal Service Board of Governors has asked the Delivery Services Department to examine ways in which the Postal Service could, perhaps, distance itself from the actual procurement and installation of NDCBU equipment. The intent of the request is to involve small businesses in the procurement and installation of NDCBU equipment.

Delivery Services has examined many possible alternatives that would satisfy this task. Some were merely variations of the same major approach. Theses different ideas and possible variations have been distilled into four major options:

Option A - Continue current policy, i.e. the USPS procures, installs and maintains the equipment.

Option B - Builders procure & install, local postmasters provide an allowance based upon builder costs incurred. The USPS maintains.

Option C - Builders procure & install, USPS provides an allowance based upon traditional USPS costs or first year savings. The USPS maintains.

Option D - Builders/developers or owners are responsible for procurement, installation and maintenance. All exercise their judgment in selecting delivery modes.

The Postal Service has operational experience with Options A & D, (current policy and pre-1981 policy, respectively) and can, therefore, predict with a reasonable degree of certainty, the cumulative cost avoidance for these options over the next ten fiscal years. While we have had little or no experience with Options B & C, we have made every effort to present these options in "best case" situations. Regardless, Option A offers customers and the Postal Service the most cost effective means of maximizing centralization and therefore, generating the greatest cost avoidance. Estimated cost avoidance over the next ten fiscal years is expected to be approximately $3.32 billion for Option A, $1.6 billion for Options B & C and $.5 billion for Option D. Obviously, Option A will have the maximum positive benefits for postal customers by making the greatest contribution to the stabilization of Postal rates.

Under Option A, it is our experience that most NDCBU business is currently conducted with small businesses.

Eugene C. Hagburg
Assistant Postmaster General
Delivery Services Department

BACKGROUND ON COST DATA

- FY 84 figures include actual FY 84 costs, plus cumulative maintenance costs and cumulative per delivery and segmentation cost avoidances for FYs 83, 82 and 81.

  Since no yearly records were kept on the 12,000 NDCBU installations which occurred from FY 65 through FY 80, the figures were computed as if all units installed prior to 1981 were installed in FY 81. ("Guessing" at a number of units installed each year would cause a misrepresentation in cumulative cost avoidance. Therefore, to avoid any misrepresentation, we have underestimated our cost avoidance, claiming no cost avoidance per NDCBU delivery until FY 81.)

- FY 84 is considered the base year. The following figures were used in the computations:

	FY 84
Unit Cost	$132
Installation Cost	$125
Maintenance Cost	$ 34
Cost Avoidance per NDCBU delivery	$ 32
Segmentation Cost Avoidance	$0.03 Million

- For FYs 85-94, the FY 84 base costs (except the segmentation cost avoidance) were escalated at 6% per year, unless otherwise noted.

- Number of NDCBU Deliveries Per Year
  Actual NDCBU installations for FY 84 and prior years. Estimated installations for FYs 85-94.

- Unit Costs (per unit)
  Actual costs for FY 84.

- Installation Costs (per unit)
  Actual costs for FY 84.

- Maintenance Costs (per unit)
  Actual cost for FY 84.

- Cost Avoidance per NDCBU delivery
  Actual cost for FY 83, escalated at 6% for FY 84. The per delivery cost avoidance is based on workhour, staffing, vehicle and gasoline cost avoidances and the unit, installation and maintenance costs.

- Segmentation cost avoidance (per unit)
  Estimated percentage of total Mail Processing segmentation (mail distribution economies) savings attributable to NDCBU installations. Segmentation cost avoidance is shown as part of the total yearly cost avoidance. (This figure is not escalated at 6% per year. Instead, Mail Processing has supplied yearly projections for FYs 84 through 94 based on our current NDCBU policy, with adjustments made under the individual option to reflect the difference in NDCBU installations.)

NDCBU INSTALLATION
ACTUAL AND PROJECTED

FY 84: Indicates the actual number of units installed nationally during FY 84 through AP 11 (73,798).

Also, includes the projected installation for AP 12 and 13 (21,226).

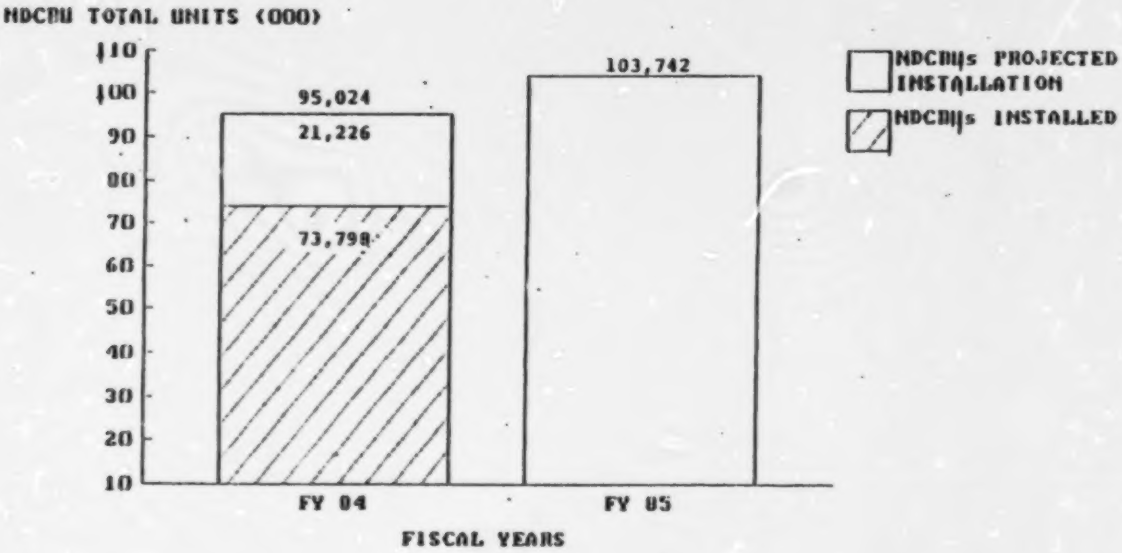
End of FY projected total installed (95,024).

FY 85: Indicates the projected units to be installed during FY 85 (103,742).

A breakdown of this information by region follows:

REGION	PROJ./ACT INSTALLED FY 84	PROJECTED INSTALLATION FY 85
NORTHEAST REGION	5680	7318
EASTERN REGION	8480	9193
SOUTHERN REGION	34189	33572
CENTRAL REGION	13979	16052
WESTERN REGION	32696	37607
NATIONAL TOTAL	95024	103742

MDCBU INSTALLATION
ACTUAL AND PROJECTED



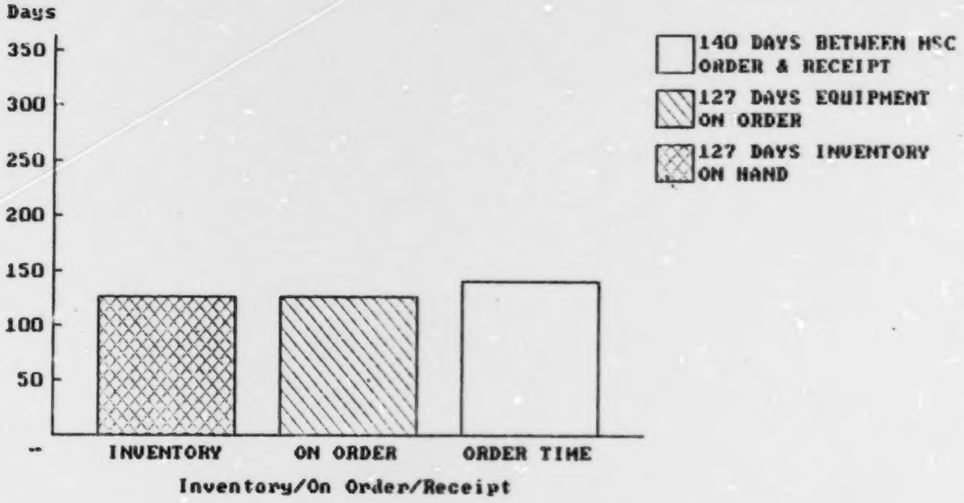
NDCBU INVENTORY & ON ORDER
ACTUAL AND PROJECTED

FY 84 (ACTUAL): Indicates the present inventory and on order status. Inventory actual 41,965. On order actual 35,937. Total combined - 77,902. The chart below gives this information by region and includes an approximate number of days equipment is on hand and on order.

FY 85 (PROJ. AVG): These numbers are based on the average inventory required nationally and the projected ordering rates. All information is based on the number of planned installations for FY 85.

REGION	CURRENT ON ORDER	# DAYS SUPPLY ON ORDER	CURRENT INVENTORY	# DAYS INVENTORY ON HAND
NORTHEAST REGION	4539	222	1752	50
EASTERN REGION	4317	177	4276	137
SOUTHERN REGION	4625	48	12758	120
CENTRAL REGION	6874	144	8848	190
WESTERN REGION	15582	146	14331	125
NATIONAL TOTAL	35937	127	41965	127

INVENTORY, ON ORDER & PROCUREMENT
TIME REQUIREMENTS
FY 84



CENTRALIZED DELIVERY EQUIPMENT
FY 84 PROCUREMENTS

A survey of twelve PSOs was conducted to determine the average delivery time for centralized delivery equipment. A survey of 245 procurement actions was made to determine the days required to receive equipment from order date to receipt.

The column "PS Form 7381" shows the number of days required from the date the ordering Post Office completes a PS Form 7381 until the date they receive the equipment.

The "Purchase Order" column shows the average number of days required to receive ordered equipment from the date the purchase order was completed

PROCUREMENT SERVICE OFFICE	# OF ACTION	DAYS FROM PS FORM 7381	DAYS FROM PURCHASE ORDER
Los Angeles, CA	21	145	85
San Francisco, CA	30	177	137
Salt Lake City, UT	9	120	87
Denver, CO	9	76	50
Honolulu, HA	3	98	88
Anchorage, AK	12	111	86
Phoenix, AZ	13	151	104
Seattle, WA	19	138	85
Pittsburgh, PA	59	147	43
Columbia, MD	39	131	70
Rochester, NY	8	142	74
Philadelphia, PA	23	133	92
National Average	245	140	79

OPTION A

Continue Present Policy
USPS Procures, Installs and Maintains the NDCBUs
Under this option, the USPS would continue its current policies as established following the issuance of the Federal Register rule of March 5, 1981.

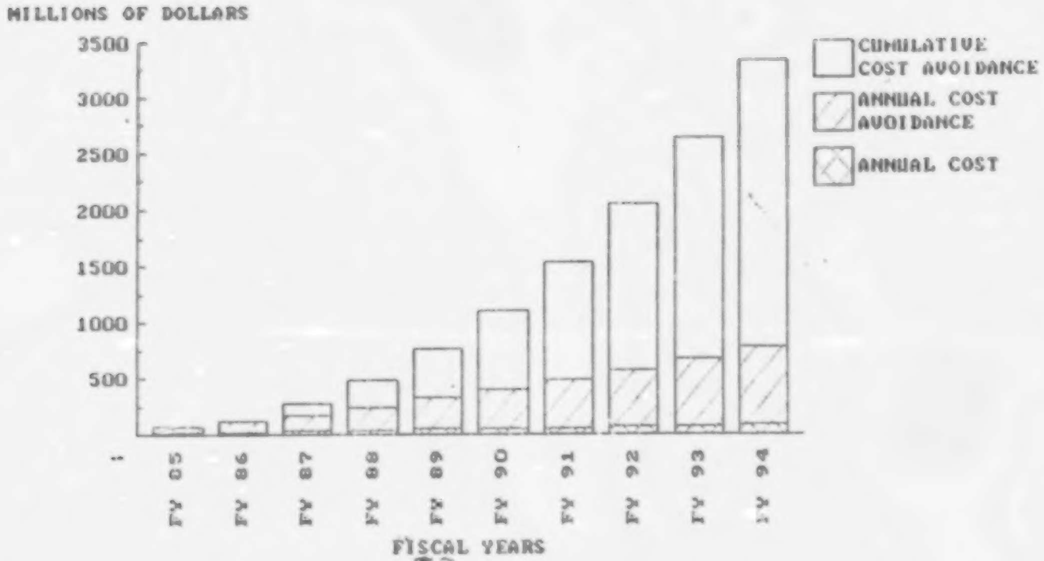
The range of costs and cost avoidances between FYs 85 and 94 are:

	FY 85	FY 94
Unit Cost	$140	$236
Installation Cost	$132	$224
Maintenance Cost	$ 36	$ 61
Cost Avoidance per NDCBU delivery	$ 34	$ 57
Segmentation Cost Avoidance	$2.7 Million	$61.8 Million

ASSUMPTIONS

- Number of NDCBU Deliveries Per Year - 70% of new deliveries
  For FYs 85-94, it is estimated that 70% of the projected increased in deliveries will be delivered through NDCBUs.
- Unit Costs (per unit)
  FYs 85-94 show the straight 6% per year escalation over actual FY 84 cost.
- Installation Costs (per unit)
  FYs 85-94 show the straight 6% per year escalation over actual FY 84 cost.
- Maintenance Costs (per unit)
  FYs 85-94 show the straight 6% per year escalation over actual FY 84 cost.
- Cost Avoidance per NDCBU delivery
  FYs 85-94 show the straight 6% per year escalation over actual FY 84 cost.
- Segmentation cost avoidance (per unit)
  Segmentation cost avoidance is shown as part of the total yearly cost avoidance and is based on the number of deliveries served by NDCBUs.

MDCBU COST AVOIDANCE
OPTION A



OPTION A
(Millions of Dollars)

	FY 85	FY 94
Annual Cost	27.7	92.0
Annual Cost Avoidance	40.8	684.2
Cumulative Cost Avoidance	40.8	3320.2

OPTION B

Builders Procure and Install the NDCBUs
Local Postmasters Reimburse Them for Actual Purchase/Installation Cost
USPS Maintains and Replaces the Units.

Under this option, the USPS would advance to builders who select centralized delivery for their projects an allowance based on the actual costs to purchase and install the units. For maintenance and operational purposes, the Postal Service would assume ownership of the equipment after installation.

The range of costs and cost avoidances between FYs 85 and 94 are:

	FY 85	FY 94
Unit Cost	$272	$693
Installation Cost	$132	$224
Maintenance Cost	$ 36	$ 61
Cost Avoidance per NDCBU delivery	$ 34	$ 57
Segmentation Cost Avoidance	$1.4 Million	$30.9 Million

ASSUMPTIONS

- Number of NDCBU Deliveries Per Year - 35% of new deliveries
  For FYs 85-94, it is estimated that 35% of the projected increased in deliveries will be delivered through NDCBUs. (The 70% figure used in Option A was cut in half. It was felt that half of the builders would not participate in the program if they had to assume the forecasting, purchase, inventory and installation now performed by the Postal Service.)

- Unit Costs (per unit) - Increase over Option A
  The unit costs will differ from those in Option A because the economies of 100-unit purchases and lowest bid contract awards will no longer be available. In projecting the rise in unit costs, we increased the costs per year from FYs 86-89 at the same rate at which they originally decreased in FYs 81-84. For FYs 90-94, the 6% per year escalation applies.

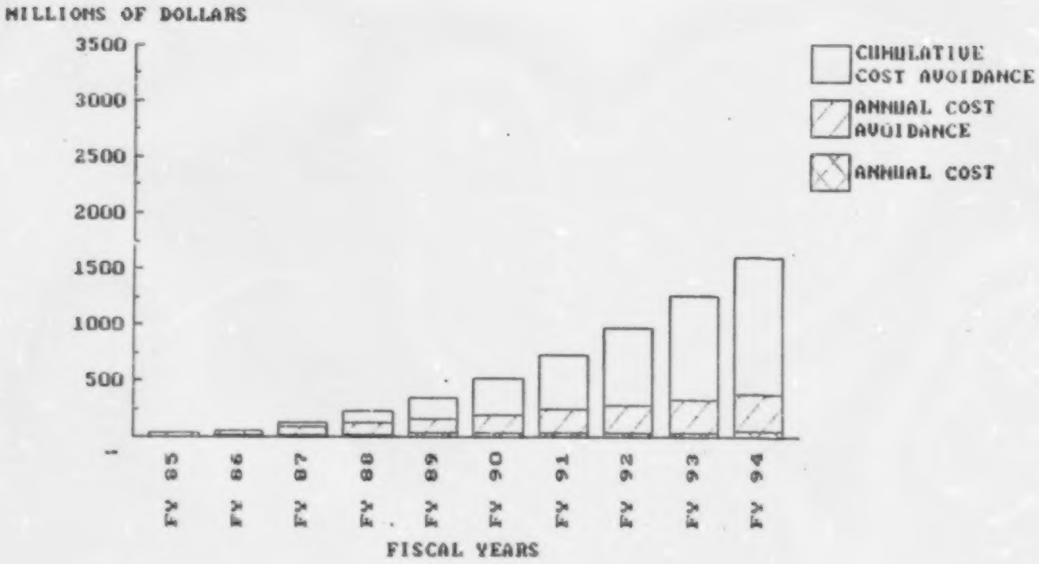
- Installation Costs (per unit) - Same Rate as Option A
  FYs 85-94 show the straight 6% per year escalation over FY 84 cost.

- Maintenance Costs (per unit) - Same Rate as Option A
  FYs 85-94 show the straight 6% per year escalation over FY 84 cost.

- Cost Avoidance per NDCBU delivery - Yearly decrease over Option A
  Because of the per unit cost increase over Option A, the cost avoidance per NDCBU delivery was affected. Since unit cost is only one component of the cost avoidance per NDCBU delivery, the amount was not deducted from the per delivery cost avoidance. Instead, the difference in the unit costs was deducted from the total cost avoidance for each year.

- Segmentation cost avoidance (per unit) - Same Rate as Option A
  Segmentation cost avoidance is shown as part of the total yearly cost avoidance and is based on the number of deliveries served by NDCBUs.

NDCBU COST AVOIDANCE
OPTION B



OPTION B
(Millions of Dollars)

	FY 85	FY 94
Annual Cost	13.9	55.8
Annual Cost Avoidance	20.4	334.6
Cumulative Cost Avoidance	20.4	1600.8

OPTION C

Builders Procure and Install the NDCBUs
Local Postmasters Advance Them the First Year Delivery Cost Avoidance
USPS Maintains and Replaces the Units.

Under this option, the USPS would advance to builders (who select centralized delivery for their projects) an allowance based on the first year cost avoidance per unit for their use in purchasing and installing the units. For maintenance and operational purposes, the Postal Service would assume ownership of the equipment after installation.

The range of costs and cost avoidances between FYs 85 and 94 are:

	FY 85	FY 94
Delivery Cost Avoidance Provided to Builder	$425	$713
Maintenance Cost	$ 36	$ 61
Cost Avoidance per NDCBU delivery	$ 34	$ 57
Segmentation Cost Avoidance	$1.4 Million	$30.9 Million

ASSUMPTIONS

- Number of NDCBU Deliveries Per Year - 35% of new deliveries
  For FYs 85-94, it is estimated that 35% of the projected increase in deliveries will be delivered through NDCBUs. (The 70% figure used in Option A was cut in half. It was felt that half of the builders would not participate in the program if they had to assume the forecasting, purchase, inventory and installation now performed by the Postal Service.)

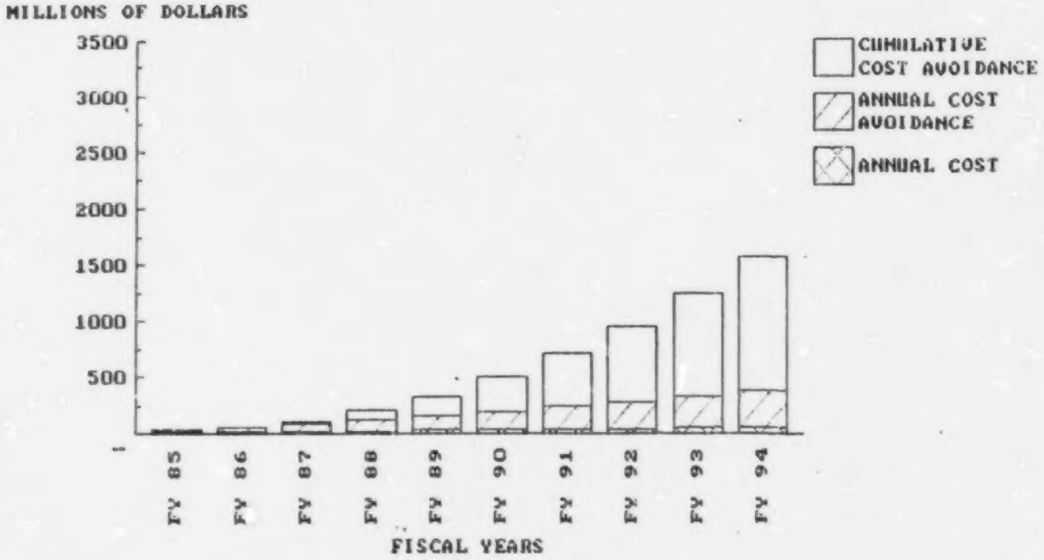
- Unit Costs/Installation Costs = Delivery Cost Avoidance Provided to Builder (per unit) - Increase over Options A and B
  The per unit delivery cost avoidance provided to the builder will be greater than the combined costs of the units and their installation projected under both Options A and B.

- Maintenance Costs (per unit) - Same Rate as Option A
  FYs 85-94 show the straight 6% per year escalation over FY 84 cost.

- Cost Avoidance per NDCBU delivery- Yearly Decrease over Options A/B
  Because of the per unit/installation cost increase over Option A, the cost avoidance per NDCBU delivery was affected. Since unit/installation costs are only two parts of the cost avoidance per NDCBU delivery, the increased cost was not deducted from the per delivery cost avoidance. Instead, the difference between the amount provided to the builder and the projected unit/installation costs under Option A was deducted from the total cost avoidance for each year.

- Segmentation cost avoidance (per unit) - Same Rate as Option A
  Segmentation cost avoidance is shown as part of the total yearly cost avoidance and is based on the number of deliveries served by NDCBUs.

NDCBU COST AVOIDANCE
OPTION C



OPTION C
(Millions of Dollars)

	FY 85	FY 94
Annual Cost	20.6	56.9
Annual Cost Avoidance	13.7	333.5
Cumulative Cost Avoidance	13.7	1578.0

OPTION D

Builders Procure and Install the NDCBUs
USPS Maintains and Replaces the Units.

Under this option, the builders would receive no reimbursement for purchase and installation of NDCBUs and would have to exercise their judgment in deciding whether to use centralized delivery for their projects. For maintenance and operational purposes, the Postal Service would assume ownership of the equipment after installation.

The range of costs and cost avoidances between FYs 85 and 94 are:

	FY 85	FY 94
Unit Cost	None	None
Installation Cost	None	None
Maintenance Cost	$ 36	$ 61
Cost Avoidance per NDCBU delivery	$ 34	$ 57
Segmentation Cost Avoidance	$0.4 Million	$14.8 Million

ASSUMPTIONS

- Number of NDCBU Deliveries Per Year - 12,000 units per year
  For FY 85, it is estimated that builders would install 12,000 units, escalated at 6% per year for FYs 86-94. This option is similar to the situation that existed prior to 1981 (after which time the USPS took over procurement, installation and maintenance). Since approximately 12,000 units were in place prior to 1981, that figure was used, although it probably overestimates builder participation.

- Unit Costs (per unit) - None
  Builders purchase the units at their own cost.

- Installation Costs (per unit) - None
  Builders install the units at their own cost.

- Maintenance Costs (per unit) - Same Rate as Option A
  FYs 85-94 show the straight 6% per year escalation over actual FY 84 cost.

- Cost Avoidance per NDCBU delivery - Yearly Increase Over Option A
  Because there are no unit/installation costs in this Option, the cost avoidance per NDCBU delivery was affected. Since unit/installation costs are only two parts of the cost avoidance per NDCBU delivery, this difference was not added to the per delivery cost avoidance. Instead, the projected unit/installation costs under Option A were added to the total cost avoidance for each year.

- Segmentation cost avoidance (per unit) - Same Rate as Option A
  Segmentation cost avoidance is shown as part of the total yearly cost avoidance and is based on the number of deliveries served by NDCBUs.

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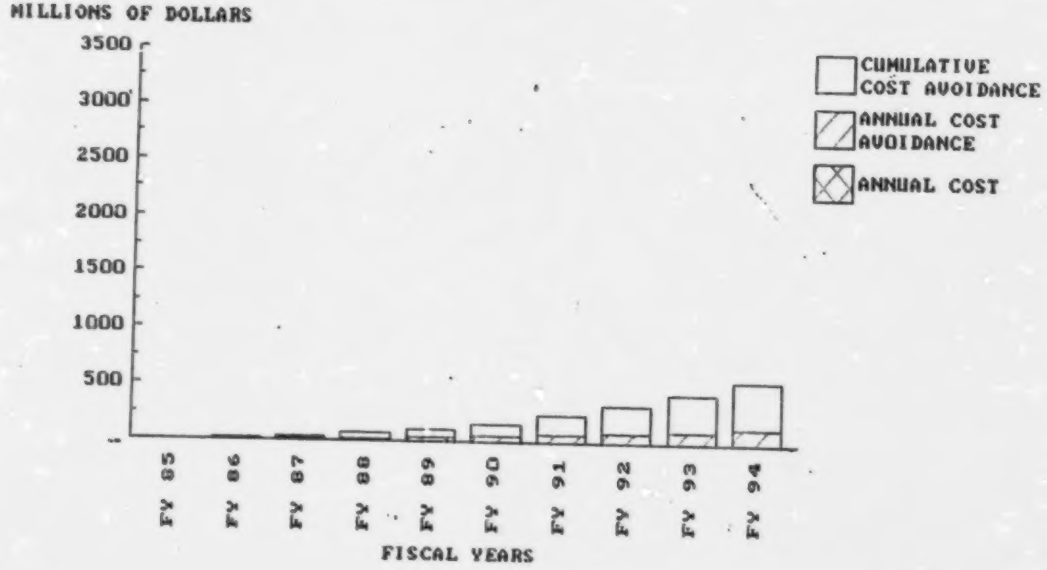
NDCBU COST AVOIDANCE
OPTION D



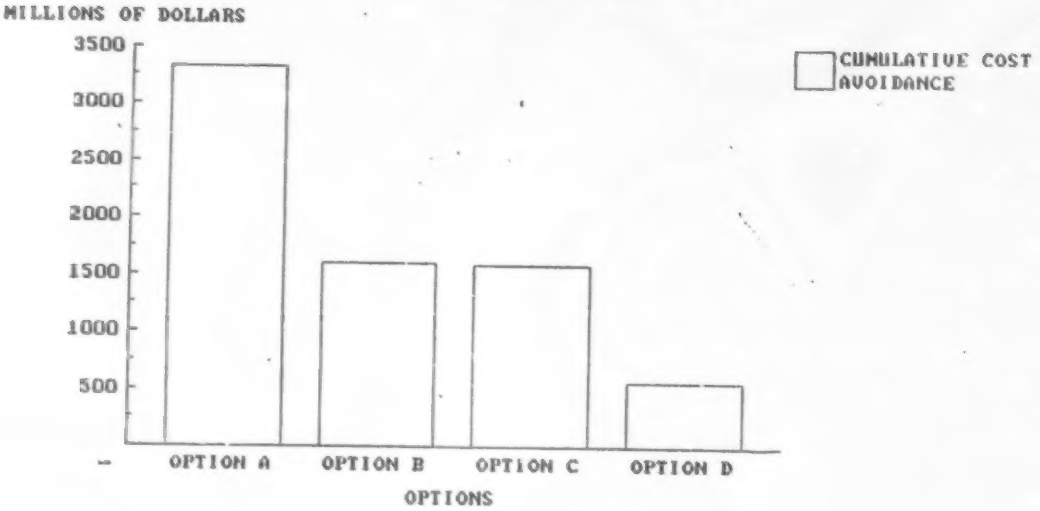
OPTION D
(Millions of Dollars)

	FY 85	FY 94
Annual Cost	0.4	9.6
Annual Cost Avoidance	8.8	137.7
Cumulative Cost Avoidance	8.8	614.3

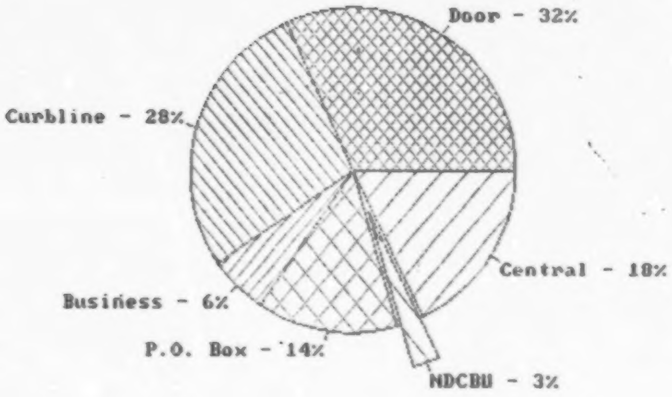
NDCBU COST AVOIDANCE
ALL OPTIONS
FY 94 CUMULATIVE

This slide represents a visual comparison of all four options and the cumulative savings that will be realized by each as of the end of FY 94.

NDCBU COST AVOIDANCE
ALL OPTIONS
FY 94 CUMULATIVE



DELIVERY MODES
END FY 84 (Projected)



Centralized: Does Not Include NDCBUs.

Mr. **English**. The staff has asked me to check with you and see if you can tell us how many delivery points there are in this country.

Mr. **Walker**. There are approximately 90 million.

Mr. **English**. They point out quite correctly then that 14 million would have been over 15 percent.

That is getting up close to 20 percent, isn't it? Fifteen percent, sixteen percent?

Mr. **Walker**. We have to add 15 million deliveries to that.

Mr. **English**. We are still talking pretty close. All right. We will clarify the record on that. We appreciate that.

In your statement you said the cost of delivery operations comprise 39 percent of your operating budget.

How much of that 39 percent is in-station time as opposed to active carrier on the street time?

Mr. **Walker**. Approximately 35 percent. It varies depending on the type of route and the particular delivery areas themselves.

Mr. **English**. So 35 percent of the 39 percent is in-station?

Mr. **Walker**. Yes, sir.

Mr. **English**. It isn't going to make any difference whether you have cluster boxes or not. That is in-station, with in-station time, right?

Mr. **Walker**. It can make some difference down the road.

Mr. **English**. It might down the road. I am talking about, as far as your overall calculations, you are going to spend that third of the time in-station whether you have cluster boxes or not.

Mr. **Walker**. We can, with cluster boxes and other technology over a period of time, reduce how much of that time is required to be spent in office by being able to deliver mail upstream. We can pull it out from processing and take it directly out to the route and distribute it at that point. And yes, by virtue of the fact we have those, we have the potential to realize additional savings besides those resulting from the delivery practice itself.

Mr. **English**. How much?

Mr. **Walker**. I don't know. We haven't done that much work on it. I said the potential is there.

Mr. **English**. So it is not the figures we are using now, it is not your calculations now. It doesn't play any role?

Mr. **Walker**. No.

Mr. **English**. So that is the thing we are groping in the dark for. What portion of 39 percent is attributible to overtime?

Mr. **Walker**. Let me pull that apart just a bit.

The 39 percent—when we talk about the operations, that really relates to work hours. They need to be the overtime dollars themselves. Overtime can be inherent in that 39 percent but that doesn't imply those are dollars we are talking about. The operating budget is the work-hour budget.

Mr. **English**. Isn't that money? I have always been told time is money.

Mr. **Walker**. Well, the ratios can change based on the overtime levels. If you will look at overtime—I can't give you these specific numbers, but let me try to give you the definition.

In mail processing, you have a low amount of overtime or high amount, but it is less of a people-intensive operation. The delivery operation is much more people intensive than a proportionate share of another part of that operating budget.

Overtime can be driven by two things, additional workload or replacement for leave purposes—for sick leave. There are a lot of reasons for overtime. I can give you our overtime rate for city carriers if that will help.

Mr. ENGLISH. I am getting a little deep here on this. We started off here with: a simple cost of delivery operations makes up 39 percent of your budget. We took that 39 percent and shifted it over here, and now we are trying to break down and find out how much of that 39 percent is made up of other items; we carved off a third of that, so now we have the other two-thirds of the budget left.

Mr. WALKER. Which is on the street.

Mr. ENGLISH. Wait a minute, let's not get on the street too quick. We want to know of that other two-thirds, how much of that is eaten up on overtime.

Mr. WALKER. Well, OK——

Mr. ENGLISH. If you are going to have overtime, you can't attribute that to savings—you can't attribute that to cluster boxes or whether you have cluster boxes or don't have them.

Mr. WALKER. That is correct.

Mr. ENGLISH. Let's not be attributing it to the fact it is savings from the standpoint of cluster boxes. Let's carve that out and say that is going to be by itself, along with time spent in the station, whether we have cluster boxes or not.

Do you know what that figure is? Do you have any idea?

Mr. WALKER. Yes. Just a minute. If we go back, I did not indicate, I don't believe—it certainly wasn't my intention—that the mere presence of cluster boxes is going to induce or impact overtime.

It will produce some effects in terms of overall efficiency which might have some impact, but we have never tried to quantify that specifically. Our carrier overtime as a national figure through accounting period seven was 11.2 percent.

I do not have that broken down between in-office and street time because we don't look at it that way. It is a combination of factors that drives overtime.

Mr. ENGLISH. Let's go at it from another angle. Certainly increased productivity through less time and motion has been something mentioned by the Postal Service as having impact, and this is how we get savings with regard to cluster boxes.

Can you tell me, when you are out on the street this other two-thirds of the time, do the carriers have to dismount to load the cluster boxes? Do they have to get out of their vehicles to load up those cluster boxes?

Mr. WALKER. Yes, Mr. Chairman.

Mr. ENGLISH. How long does that take?

Mr. WALKER. To dismount? A minute, perhaps.

Mr. ENGLISH. Mount up.

Mr. WALKER. Mount up? Two to three minutes to serve the box.

Mr. ENGLISH. Turn off the engine. They don't leave them there with the engine running, do they? Unless it is cold out.

Mr. **Walker**. That is correct. Maybe, if it is cold out. Their requirements are that if the engine is to be stopped for more than 10 seconds, it is to be turned off.

Mr. **English**. What impact does all this have in relationship now—before we never did have to dismount whenever we went down the street there and were sticking them in the boxes as we went along, curb-side service, you didn't have to dismount for that.

And the fellow that did home delivery, he walked. He didn't have anything to dismount from, and there wasn't any turning off the engine and all this stuff. In fact, it is my understanding it cost more to start up an engine than it cost to let it idle.

Is that true?

Mr. **Walker**. No.

Mr. **English**. You can turn it off and start it again cheaper than letting it idle while you are dismounting——

Mr. **Walker**. If it is going to idle more than 10 seconds.

Mr. **English**. Is that what it is?

Mr. **Walker**. Yes. That is the number I have been given.

Mr. **English**. What kind of time and motion studies have you done to distinguish this curb service versus cluster box service?

Mr. **Walker**. As I can determine, a time and motion study per se has not been done, particularly on the centralized delivery points. It has been an analytical process based on a collection of data back, as I understand it, in 1974.

Mr. **English**. You are just kind of guessing out in the dark?

Mr. **Walker**. Taking estimates—some physical review of what we think is reasonable, using some intuitive judgment. That is where it has come from, Mr. Chairman.

Mr. **English**. Guessing.

Mr. **Walker**. I didn't say guessing. I said intuitive judgment, reasonable judgment exercised by knowledgeable people. Were the statistics specifically tested? No.

Mr. **English**. The same way we got the E-COM volumes. Isn't that what they do to get the E-COM volumes?

Mr. **Walker**. I go back to the issue I think I just stated——

Mr. **English**. Let's not dance around and get cute about it. The whole fact of the matter is, if you haven't done time and motion studies, you are sitting here saying I think this, I think that.

It might be an educated guess, it may be your best experience. And maybe you have all kinds of experience to go on, but still, unless you've got a study there to point to, it is a guesstimate at best. You are making assumptions.

Mr. **Walker**. No argument about it.

Mr. **English**. The point it comes down to is you don't know for certain. You don't have a study to back you up; you are making judgments; you have no records to indicate it happened that way.

Granted, you have errors take place in time and motion studies. You always have an unknown that is a factor, but you narrow it down to the point where you minimize the risk. That is the issue we are looking at, is minimizing the risk.

They had a risk in E-COM; they didn't minimize it quite enough. The question now is with cluster boxes, do we know what we are doing, or are we guessing at unforeseen factors that are coming in?

It is my understanding that last spring, Board Chairman McKean specifically rejected the suggestion of Governor Voss for a study. Is that correct?

Mr. WALKER. I couldn't tell you. I have no knowledge of that, Mr. Chairman.

Mr. ENGLISH. You don't know what they are doing over there on the Board of Governors?

Mr. WALKER. I have attended only one Board of Governors' meeting. I have not attended any since I have been an officer, which again is 3 months.

Mr. ENGLISH. Don't they tell you what they do over there? Is it behind closed doors, not a word leaks out of what is going on? Is it one of those deals?

Mr. WALKER. Some of that I will find out about. Some of it is public knowledge from the public hearings.

Mr. ENGLISH. In other words, this particular meeting, this particular fact is not known?

Mr. WALKER. To me, it is not.

Mr. ENGLISH. Not rumored, whispered or anything, no one said nary a word.

Mr. WALKER. Not so far.

Mr. ENGLISH. My goodness sakes alive, we are bringing you news. That is what took place. A suggestion was made by the Board of Governors.

Ms. UEMOTO. Can I help Andy on that?

Mr. ENGLISH. Were you at the meeting?

Ms. UEMOTO. I wasn't at that particular meeting. I thought I could help you by telling what normally happens after Board meetings. If the Board decides to take action and it requires activity on the part of Postal Service staff, then that information is usually transmitted to the staff via the officers who might have been present at that meeting.

It is likely that a discussion did occur at the Board meeting which did not translate into an action item for the Postal Service staff. So, it is likely that none of us were made aware of any decisions.

Mr. ENGLISH. Ms. Uemoto, given your familiarity, background and experience with the Postal Service and particularly given your experience with E-COM, don't you think a time and motion study would be a smart thing to do as far as cluster boxes are concerned?

Don't you think it is good common horse sense that tells you that would be a smart thing to do?

Ms. UEMOTO. My understanding is that we are engaging in a cost study at the moment to determine what the delivery costs are for centralized delivery modes. That was done because the Postal Service feels that that information would be valuable in making other determinations as to how we go about that program.

We are awaiting the results of that study, which will be available sometime in early fall.

Mr. ENGLISH. When?

Ms. UEMOTO. In early fall.

Mr. WALKER. The way it is right now, Mr. Chairman, we will have it in September.

Mr. ENGLISH. The General Accounting Office was told last year the study was underway then, and had July 1985 as the date in which it was going to be produced. Did it start last year?

Mr. WALKER. First of all, it is intended to be completed in July.

Mr. ENGLISH. When did it start?

Mr. WALKER. Well, actually it was tested in two sites—just to test the validity and whether it satisfied all statistical needs—in February of last year.

Mr. ENGLISH. So it didn't start last year.

Mr. WALKER. The first request was made by Mr. Hagburg in April of last year, subsequent to his appearance before you.

Mr. ENGLISH. You mean we might have had something to do with that?

Mr. WALKER. You may have.

Mr. ENGLISH. That is encouraging.

On page 12, you mention the Postal Service assumes the repair and maintenance cost on cluster boxes, and on page 14, you note the current study is collecting maintenance cost information from management section centers.

Does this mean that such information has not been collected before on a systematic basis?

Mr. WALKER. That is correct, Mr. Chairman.

Mr. ENGLISH. I also noticed recently the cluster boxes have been increasingly employed as the method of delivery to those previously served by small post offices, as these offices are closed.

Since even the smallest of post offices offers a full range of postal services, does this change result in reduction in service?

Mr. WALKER. Mr. Chairman, it does not.

Mr. ENGLISH. That doesn't diminish the service? If they have a box out there delivering to them, where before they could buy stamps and all that, and get full service?

Mr. WALKER. No; if I might explain, in cases where these small post offices are closed or discontinued, we have a complete process we have to go through, including review by the Postal Rate Commission. One of the criteria is that in no way are we able to close an office in a case where service would be diminished, where any level of service would be less than they had enjoyed in the past.

In some cases, it becomes a matter of convenience for the customers, because in some of those smaller offices, the window operations are limited. They might only have 1 or 2 hours they might be able to get their mail.

Mr. ENGLISH. Excuse me for interrupting. I have been in an awful lot of small post offices. I have town meetings in a lot of them. It is a good place, people come in and say hello. Even when the window is closed, the rest, where the boxes are, is always open.

People can come in there and get their mail. They are even inside, they are not standing out there in the rain—getting rained on, the mail getting rained on and all that stuff, trying to get it out of the cluster boxes.

Mr. WALKER. I indicated in some cases. As far as the cluster boxes are concerned, they are going to be on rural routes. They are able to receive mail, they have 24-hour access to the mail receptacle, they have collection service, and they are able to get postage through their rural carrier, and they don't have to travel a distance to that old post office—old being a relative term.

Mr. **ENGLISH**. They have to travel a distance to that cluster box. In particular, those people who get out on rural routes where you have a 16-box cluster box standing up there. The rural letter carrier, he has been providing these folks a full service, you go out there and get stamps from the man. He gives you a full service right there. How does that box sitting out there that you have to go down the road to, how in the world does that provide you all those services?

Mr. **WALKER**. The service exists for the customers. In many cases, they were getting service out of the rural post office.

Mr. **ENGLISH**. What about the one that was?

Mr. **WALKER**. I couldn't cite a specific instance. All I can do is again go back to my statement. The requirement is that the level of service those postal customers receive will be no less—no diminution of service.

Mr. **ENGLISH**. Mr. Walker, we continue to receive complaints about the policies and tactics, and these range all the way from Largo, FL, where one of the high-rises in an apartment complex gets its mail delivered to a sidewalk cluster box while the buildings on either side get lobby delivery; to New York, where a group of redeveloped, owner-occupied single-family houses are denied door delivery afforded to their neighbors' houses.

Are you aware of these and other problems?

Mr. **WALKER**. We have from time to time. I am not aware of the one in Largo. I am aware of the one in New York.

Mr. **ENGLISH**. Are you doing anything to take care of those problems, to rectify those problems?

Mr. **WALKER**. Where we have a violation of our own rules——

Mr. **ENGLISH**. Is that the case in New York? Was that a violation of your rules?

Mr. **WALKER**. I don't know the specific circumstances. I can't remember the name of the one in New York, right now, but I think I know which one it is. At any rate, any case where we have a specific violation of the rules we expect our people to change.

Mr. **ENGLISH**. Last week, mail service was terminated at a Hartford, CT, low-income project because of concern over the safety of a carrier. Apparently, his windshield got hit with a pellet from a pellet gun. The service was resumed once the complex manager agreed to outside cluster boxes delivery.

I am concerned about any carrier's safety, I can appreciate the initial decision. But tell me, how in the world can his safety be enhanced from a pellet gun if he is standing out there trying to put mail in a cluster box? It looks like he would be safer in a vehicle than standing out there at a wide-open cluster box.

How is safety improved under those conditions?

Mr. **WALKER**. Without knowing more specifics, I really can't answer that question.

Mr. **ENGLISH**. On the face of it, you would have to say that is absurd, isn't it?

Mr. **WALKER**. That depends on how far away from the area the cluster box is. I really don't know the circumstances. I certainly plan to look into it. I am not familiar with that situation.

Mr. **English.** In 1984, your predecessor issued instructions to the entire Postal Service as follows, and I quote:

> After October 2, no centralized delivery equipment of any type will be provided to builders of apartments * * * even though an arrangement may exist with the builder * * * even in situations where installation is partially complete.

Now, certainly that would have to rank as a unilateral abrogation of Postal Service agreements that the Postal Service itself had sought. What special legal authority does the Postal Service have to take such action?

Mr. **Walker.** I can't speak to the legal authority. I can speak to the policy decision that was made, at least as I understand it, which was that at some point in time, a decision had to be made to start to enforce the policy.

Mr. **English.** Even those agreements that were already in existence?

Mr. **Walker.** I can only repeat to you, Mr. Chairman, my understanding of what that decision was. I wasn't a party to that decision.

Mr. **English.** I realize that. But if you are going to sit here and tell us what was done, then you are going to have to sit here and explain the reason it was done. You can't have it both ways.

You have to take the whole thing. If you know why it was done, then you are going to have to tell us why you legally think you could do it or not do it, and whether that is an abrogation of agreement, and what the logic is behind it.

Can you explain any of that?

Mr. **Walker.** The legal part of it, no.

Mr. **English.** Can you give me the common sense part of it?

Mr. **Walker.** Again, I go back—the information I have is simply the decision was made at some point in time to stipulate that that was the way it was going to be handled.

Mr. **English.** I understand what the decision was. Give me the logic beyond that decision. After October 2, no centralized delivery equipment of any type will be provided to builders of apartments, even though an arrangement may exist with the builder, even when situations where installations were partially complete. He sent it out on October 23. Give me the logic, the common sense, the fairness of that.

Mr. **Walker.** I can't speak for somebody else that made that decision.

Mr. **English.** I know, but this is the Postal Service that did this. Don't give it to this one guy that has already gone.

Mr. **Walker.** Let me get past that.

The fact is that there have been exceptions made to that.

Mr. **English.** I am from the Sixth District of Oklahoma, and I appreciate that.

Mr. **Walker.** Mr. Chairman, yours was not the only one. Yes, there have been exceptions made. If that relates back to the logic of the policy, maybe that says that we have taken a look at that.

Mr. **English.** I appreciate that you did not make the decision and you are in a very difficult position to come up here and explain what some other fellow did.

Maybe I am asking too much for you to simply say: That is the dumbest thing I have ever heard of, it was a stupid decision, the man who made it is no longer in this job, that we are going to make certain that it is corrected, and people are treated fairly.

I realize that is not diplomatic, and that it might ruffle some feathers. It is the right thing to do.

I had a situation, because of this decision, in my district. I appreciate the Postal Service Headquarters people and our local post office in Oklahoma City resolving it. It was an error, and I don't hold the entire Postal Service accountable because of one man's error, and I appreciate that you have made exceptions. But still that kind of decision ought to be condemned. It was wrong. I know it is not the kind of thing that is normally done under these circumstances—we kind of close ranks and quiet things down—but it was an absurd decision.

I know a number of you all are sorry that that was done. I would encourage you to look through the Nation and try to make amends and take care of the difficulty. There was nothing wrong with the policy, but it was the way in which it was implemented.

The timing, trying to abrogate agreements that were already in place, and which should have been fulfilled.

Also your predecessor, the author of this October 25 instruction I mentioned, could you tell us what this gentleman is doing these days? The fellow who authorized that?

Mr. **Walker**. It is not my position to come here and pass judgment.

Mr. **English**. I realize that. I have already done it for you.

Mr. **Walker**. Mr. Hagburg is currently the Assistant Postmaster General for Planning.

Mr. **English**. For the whole Postal Service?

Mr. **Walker**. The planning responsibility for the Postal Service.

Mr. **English**. He got promoted?

Mr. **Walker**. You would have to ask him that.

Mr. **English**. Well, I can only say let the record show that I sadly shake my head at this news. With the kind of action that he took and with that kind of decision he made, we are going to have to keep a closer watch on planning throughout the Postal Service, that is for certain.

That concludes my questions. We may have some additional written questions in the future, and I appreciate you all coming up here. I know that you kind of come under fire for a couple of policies and, in some cases you are not responsible for those policies. I appreciate that, and understand that.

I wish the Postmaster General himself had been kind enough to pencil us in on his very vacant schedule at the time we made the request; and, we hope in the future that he will avail himself of this committee so that we might ask him personally some of these questions; but again, I want to thank you.

I think you have been candid with me; and while we may disagree on a couple of points, I appreciate your testimony. Thank you very much.

With that, we will recess subject to the call of the Chair.

[Submissions to additional subcommittee questions follow:]

E-COM

Q. In January of 1984, the Postmaster General announced that ITT would be joining the E-COM system. Did ITT join and use E-COM in March of 1984?

A. ITT was certified as an E-COM carrier in July 1982 and began using the service the following month.

Q. How much was Booz-Allen paid for the assistance it rendered in connection with E-COM and what arrangement for additional payment(s) exist?

A. A copy of the compensation schedule contained in the Postal Service's contract with Booz-Allen Acquisition Services is attached. Payments authorized through June 1985 totaled $425,000.

(ATTACHMENT)

Q. The Postal Service attempted to restrict use and sought agreement for return of the public offering document. Under what authority was this done--does the Postal Service have some special authority to reclassify, so-to-speak, public information?

A. The Postal Service has no special authority and has not sought to restrict access to public information. The offering document is the property of Booz-Allen Acquisition Services and was developed by them as a tool for their use in discussions with prospective purchasers of the E-COM system. It contains information believed to be of a competitive nature.

COMPENSATION SCHEDULE

For the services of BAAS, it is agreed that the USPS shall pay the following:

1. Phase I: Fixed fee for professional time of $135,000 plus reimbursable expenses which will include a charge for support burden to be $9,450--i.e., 7 percent times the fixed fee for professional time.

2. Phase II: A monthly retainer of $20,000 plus reimbursable expenses which will include a monthly charge of $1,400 for support burden.

3. Completion Fee: calculated at USPS discretion on the basis of either Method A or Method B described below--provided, however, that in no event (regardless of the amount of consideration received or even if the transaction is a lease) will the net completion fee be less than $200,000 regardless of which method is used:

   o Method A (BAAS Standard Fee)

      - 3% of the aggregate consideration up to $10.0 million, plus
      - 1% of the aggregate consideration between $10.0 million and $50.0 million, plus
      - 0.5% of the aggregate consideration in excess of $50.0 million.

   Note: The completion fee calculated according to Method A only, will be subject to a credit of the Phase II monthly retainers paid to BAAS applied to that portion of the completion fee derived from aggregate consideration in excess of $10 million.

- Method B ("Lehman" Formula)
  - 5% of the first $1.0 million of the aggregate consideration, plus
  - 4% of the second $1.0 million of the aggregate cosideration, plus
  - 3% of the third $1.0 million of the aggregate consideration, plus
  - 2% of the fourth $1.0 million of the aggregate consideration, plus
  - 1% of the aggregate consideration in excess of $4.0 million

Under either method the term "aggregate consideration" shall mean the total amount paid or to be paid to USPS in payment or exchange of the assets. The term "the total amount paid or to be paid" shall be construed to encompass all forms of consideration including, but not limited to, cash, stock, notes, contingency payments and the like.

In the event that the consideration is paid in whole or in part in the form of securities of the acquiring company, the value of such securities, for purposes of calculating aggregate consideration, shall be the fair market value thereof, as the parties hereto shall mutually agree, on the day prior to closing of the sale; provided, however, that if such securities consist of stock with an existing public trading market, the value thereof shall be determined by the last sales price for such stock on the last trading day thereof prior to such closing.

In the event that the consideration is paid in whole or in part in notes, the value of the notes, for purposes of calculating aggregate consideration, shall be the fair present market value of the notes on the date of the closing.

The fee will be paid at the closing based upon the aggregate consideration received at that time. If future payments are to be made contingent upon future performance, or on other measurements such that the present fair market value of the obligation cannot reasonably be determined, that portion of our fee will be paid to us when the future payments are made. Depending on the size, nature, and amount of such contingent payments, the Parties may agree to an alternative valuation formula in order that BAAS may receive a current rather than a deferred payment. Absent such alternative formula, BAAS shall retain a reasonable right of access to USPS's books and records relating to the contingent payments.

Q. E-COM is a registered trademark. It's not clear from the offering document, but were you planning to sell or assign this trademark right?

A. Yes.

Q. Did you ever license or otherwise authorize the use of your trademark in the full page ad in "Regardies" magazine?

A. The Postal Service has no knowledge of the advertisement referred to in the question. However, E-COM carriers are authorized to use the trademark "E-COM" where it is clearly identified as a Postal Service trademark. The Postal Service does not review carrier advertisements prior to their publication.

Q. In December, 1984, Keith Strange told interested parties the Postal Service would consider "less than full shift staffing... of less than 25 SPOs". Has Postal Service management made any of those changes to hold down operating losses?

Now that a final order for sale or service termination decision has been made, can you tell us what is being done to limit additional losses--are you, for example, going to run the SPOs less than 24 hours a day, 7 days a week?

A. The Postal Service is currently formulating plans to further scale down the E-COM operation. As was mentioned during the hearing, both of the actions suggested in the questions are under consideration. As you are already aware, advertising stopped after June 1984 and developmental work was reduced to only that necessary to maintain the system.

Q. On page II-14 of the offering document it says the Postal Service made 52,000 phone calls and sent 1.3 million direct mail promotional pieces on E-COM through August of last year. Can you tell us how many magazine, newspaper and trade journal ads you placed during that period, and what size readership was, thus, exposed to news of E-COM?

A. There was no E-COM advertising during Fiscal Year 1982. During the following two fiscal years, advertising appeared in 13 newspapers, magazines, and trade journals with a combined circulation of 15.5 million. Each publication was used seven to eight times per year. All E-COM advertising was stopped after June 1984.

Q. On January of this year, the Department of Justice notified the Postmaster General of an allegation that the Postal Service was offering potential buyers of E-COM a special deal--that E-COM messages could be entered into the "next day" mailstream as late as midnight; whereas, the latest acceptance time for first class presort would be 7:30 p.m., and then only if special arrangements had been made. Were any such special offers made?

A. No.

Q. Grayson Poats expressed concern in his-the Postal Service--response to the Department of Justice that someone might be "seeking improperly to influence the conduct of the divestiture negotiation." Are you aware of any improper attempts to influence the outcome of the process?

A. The lodging of such an allegation with the Department of Justice raises the appearance of an attempt to influence the divestiture process improperly. In this instance, evoking the spector of litigation could be intended to discourage potential buyers or lessees from bidding so as either to eliminate competition or drive down the price. The Postal Service asked the Department to identify the party who made the allegations so that the Service could investigate. Inasmuch as the Department declined to furnish the information, the Postal Service was unable to ascertain whether misconduct had occurred.

Q. If a potential buyer lobbied a Governor or several Governors, would it constitute an act to improperly influence?

A. This hypothetical question does not furnish sufficient information upon which to base a response.

Q. Postmaster General Carlin said that closing down E-COM would take 90 days, with the PRC actions and contractual notice obligations. There was no mention of any contracts requiring notice in the Booz-Allen offering document. Was this an oversight--what unknown obligations would a buyer have had? Can you tell us just what kinds of contractual obligations the Postal Service has, and with whom, that require 90 days of notice?

A. The offering document was not intended to cover all of the topics related to divestiture and the transition to a new buyer. However, all interested parties were encouraged to participate in the "due dilligence" process which enabled them to investigate, in depth, any and all issues concerning E-COM service. Some topics not addressed in the document are considered obligations of the Postal Service, such as the contractual requirement to furnish 90-days notice of termination of the dedicated access agreements with participating carriers.

Q. In his testimony before the House Post Office and Civil Service Committee on June 12, 1985, the Postmaster General said that the Postal Service would continue to search for "an appropriate role" in the electronic communications area. Please explain just what the Postal Service is doing, or plans to do, in the way of a continuing search.

A. At the June 11 hearing before the House Post Office and Civil Service Subcommittees on Postal Operations and Services and Postal Personnel and Modernization, the Postmaster General observed that the Postal Service could not afford to ignore what is happening in the "electronic technology field" and that it was going to continue to explore ways for the Service to use that technology to reduce its costs. Implicit in this statement is the wedding of technology to the traditional role of the Postal Service, the delivery of hard-copy items, to achieve processing or transportation efficiencies. The Postal Service is not now working on or planning an electronic communications system.

INTELPOST

Q. Mr. Schiller and Ms. Harris were on travel to INTELPOST meetings in Hong Kong and Australia from March 12th through 30th. How much did that trip cost, air fare, per diem, etc., in total?

A. Mr. Schiller and Ms. Harris did travel to Hong Kong and Australia earlier this year on Postal Service business which included formal international business. Meetings were conducted with 45 representatives of thirty countries. All of the charges have not yet been received, but estimated charges approximate $11,000.

Q. According to you, INTELPOST operating costs will be about $120,000 this year, down from $1.2 million last year. Now, according to former Postmaster General Bolger, INTELPOST cost $1.2 million in 1982 and $1.9 million in 1983. You've attempted to explain the extraordinary drop in cost from last year to this. Can you explain the increase and then decrease in operating costs from 1982 to 1983 to 1984?

A. The increase in cost between 1982 and 1983 was due primarily to the one-time addition of three new gateway cities and the resultant increase in equipment, telecommunications, and personnel expenses. The estimated decrease from 1984 to 1985 is due to the change in the operating system and the elimination of personnal in both headquarters and field dedicated only to INTELPOST.

Q. Without any quibbling over whether an expense is directly related to INTELPOST or is an institutional--indirect cost, how much--total, including advertising and consultants, etc., will be spent on INTELPOST this year? List each of the cost elements.

A. The projected operating costs for INTELPOST for Fiscal Year 1985 are:

Salaries and Benefits	$ 56,000
Equipment Leased	24,000
Communications	26,000
Travel and Training	15,000
	$ 121,000
Advertising	$ 525,000

These include the costs of marketing consultants and the like. In accordance with general Postal Service practice, these costs were not included in the operating costs for the project.

Q. You mention the involvement of domestic lettershops and presort services in INTELPOST. Please tell us specificaly what they're doing in this area and what you anticipate for the future? How many "collateral agents" have you signed up?

A. Share office services, presort service bureaus, lettershops, and other private postal operations deal directly with a wide variety of business customers. As such, they are natural targets for collateral agent relationships with the Postal Service because they provide a broad range of communications services to their customers. The Postal Service is negotiating with a number of these agents and is in the process of establishing regular customer INTELPOST trust accounts with them in order to increase access to the service and provide wider service. We already have seven trust accounts from such agents.

Q. The Postal Service's Comprehensive Annual Statement for 1984 states that "The result of this effort (the so-called Manhattan advertising blitz) was a tripling of the New York City originating volume compared to Fiscal Year 1983." We've been having great difficulty substantiating this claim from volume figures you've given the Subcommittee--we can't find any tripling of volume on a sustained basis. Please explain.

A. The Manhattan effort produced positive effects on the INTELPOST volume originating from New York. From mid-October 1983 to January 30, 1984, INTELPOST volume was 1,250 pages, up from 330 pages during the same period the year before.

Q. Please provide a detailed listing of all costs and revenues associated with INTELPOST for Fiscal Years 1984 and 1985.

A. The operating costs for Fiscal Year 1984 were:

Salaries and Benefits	$ 326,397
Supplies and Services	399,397
Communications	226,762
Travel and Training	29,102
Other	249,166
Total	$ 1,231,045
Advertising	$ 671,161

The revenues for Fiscal Years 1984 and 1985 (projected) are $50,000 and $70,000, respectively.

NOTE: Fiscal Year 1985 costs are contained in the answer to Question 3 above.

Q. Please explain how the equipment (both old and new) used in the INTELPOST program is carried on Postal Service books: e.g., is it a capital investment that is depreciated?

A. The old system included computers which were obtained on a lease/purchase basis. They were transferred to the Office of Maintenance Management and were provided to the Technical Training Center at Norman, Oklahoma for use in technical training. The five sets of scanners and printers were purchased, two sets in 1978 and three in 1983. One set was transferred to the Smithsonian at net book value. The remaining four were declared excess for disposal as surplus equipment. (The Postal Service uses straight-line depreciation on its equipment.) The leased lines were terminated and the leased modems were returned to the appropriate company. Modems which were purchased were absorbed where needed into other postal operations.

CENTRALIZED DELIVERY

Q. The prepared statement says that "the cost of delivery operations comprises 39% of your operating budget." How much of this 39% is in-station time, as opposed to actual carrier on-the-street time? What portion of the 39% is attributable to overtime?

A. Of the 39%, approximately one-third is in-station time and two-thirds is street time. The Postal Service tracks carrier overtime as a percent of total carrier workhours. In addition, any evaluation of the overtime rate must consider that reported overtime includes leave replacement time. These overtime hours are used to replace absent employees and are not related to increased workload.

As of the end of accounting period 9 (June 7, 1985), the delivery services overtime rate, including replacement overtime, was 9.3%.

Q. We continue to receive complaints about Postal Service policies and tactics, ranging from Largo, Florida, where one highrise in an apartment complex gets its mail delivered to a sidewalk clusterbox while the buildings on either side get lobby delivery, to New York, where a group of redeveloped, owner-occupied single family homes are denied the door delivery afforded to neighboring houses. Are you aware of these and other problems? If so, what are you doing to rectify those situations? If not aware, why?

A. Whenever a new policy is implemented, a line must be drawn which distinguishes between it and the previous policy. Since the Postal Service does not adjust existing services to comply with the new policy, when policy changes have been made, the result is varying types of service co-existing within a given area. This is the case with the recent changes to our delivery services policy. There are indeed areas which contain a range of delivery service modes. There are no means to rectify these situations except to ensure that current procedures are correctly followed. When they are not, steps are taken to rectify the matter.

With respect to the particular instances you noted, delivery is being offered in the New York case to mailboxes located on the residents' railings or to NDCBUs. Door delivery is no longer available as a delivery option. It is available as a "fill-in" in areas where door delivery is already provided. For example, if a home is erected between two existing homes on the same blockface and these houses receive door delivery, the same option would be available to the new homeowner. The New York development does not meet this criteria. The delivery options available in that case, as with any residential development are curbside (or sidewalk) and centralized delivery. There, delivery to the railing boxes is the equivalent of sidewalk delivery. In addition, because the area is located in a high crime area, NDCBU delivery was provided to give the residents more secure mail service. While the majority of the residents use the railing boxes, there are others who have chosen NDCBU delivery.

In addition, the Postal Service does have a "hardship" exception policy. Customers can request an exception to standard delivery policy, due to "hardship" circumstances, which will allow for door delivery even if it is not normally available. An example would be where a customer lives alone and cannot physically obtain mail from a receptacle located any distance from his or her home. These requests are reviewed on a case-by-case basis at the local or Management Sectional Center level.

The Largo, FL situation involves 5 high-rise office buildings, three of which were built in 1971 when the owner installed apartment-style boxes in each lobby. The owner purchased and installed the equipment for the last two buildings in one delivery center.

Q. On October 25, 1984, your predecessor issued instructions to the entire Postal Service, as follows: "After October 2, no centralized delivery equipment of any type will be provided to builders ...of apartments ... Even though an arrangement may exist with a builder...even in situations where installation.... is partially complete..." Have you rescinded the portion of the instruction that broke existing agreements? Will you? If not, why? If a party agreed to clusterboxes and then wants out, its not allowed; however, if the Postal Service wants out of the agreement, that's okay -- is that correct?

A. Until recently, the Postal Service provided centralized delivery equipment for most deliveries when certain conditions were met. On October 2, 1984, the Postal Service issued instructions to its field offices defining the new conditions under which it would provide centralized delivery equipment to customers. These instructions stated that the Postal Service would purchase, install and maintain centralized delivery equipment for residential city, residential rural/urban, business, and military installation areas. The USPS would not purchase apartment-type receptacles for use as centralized delivery equipment and would not provide centralized delivery equipment for apartments, hotels/motels, trailer parks, or colleges and universities.

When the instructions were issued, the Postal Service received numerous inquiries from field offices on how to handle instances where agreements had been signed but the equipment would not be available for installation until a future date. A decision was made to stop providing equipment commensurate with the October 2 date regardless of previous commitments and the October 25 instructions were issued. This decision was subsequently rethought and limited exceptions were permitted. Initially, in order to gain an exception to the new policy there must have been a signed agreement in effect,the builder/developer must have made a significant outlay of funds to construct a shelter or lay a foundation for the centralized delivery equipment, and the equipment required must either have been on-hand at the postal facility or in transit from the manufacturer on October 2, 1984.

The Postal Service now feels that the policy of limiting exceptions to those cases where funds were expended by the builder/developer failed to focus on the major issue--whether or not the Postal Service should honor a commitment made prior to the October 2, 1984, policy change. Therefore, in an attempt to satisfy all parties concerned and honor agreements made in good faith, the Postal Service will, in the near future, substitute the following exception criteria for the October 25 criteria:

- All exceptions will continue to be reviewed on a case-by-case basis.
- An agreement between the Postal Service and the builder/developer must have existed prior to October 2, 1984.

- If the units are occupied and/or another form of delivery has been implemented, the residents must agree to delivery through the centralized delivery mode.
- If the three criteria have been met, the Postal Service will supply the equipment originally agreed upon if it is available. If the equipment is not in stock and it cannot be ordered, the Postal Service will make every effort to offer alternative equipment.
- If the builder/developer already has the centralized delivery equipment on order with a manufacturer, that order must take precedence over this policy modification. These orders should not be cancelled. For those customers who had agreements prior to October 2, the Postal Service will honor those agreements by providing equipment if needed and in other cases will consider claims on an individual basis.

The Postal Service believes that this new policy is most equitable in that it honors commitments, considers the preferences of current residents, and is in keeping with the spirit and intent of the October 2, 1984, policy change.

Q. At the May 8, 1984 meeting of the Board of Governors, both Mr. French and Mr. Hagburg told the Governors that a study of the cost to the Postal Service of procuring and maintaining clusterboxes would be done. Has that study been performed and, if not, when will it be completed?

A. The study is now nearing completion. The raw data will be accumulated by the end of July and the definitive results will be available in September.

Q. lease explain the new "segmentation by mail bundles" procedure referenced in revised M-37, Rural Carrier Methods Handbook. What is its impact on casing time? Will the mail be bundled sequentially? Will the process be applied to other than rural carriers? Have carrier organizations objected to the proposal?

A. A procedure for the segmentation of mail bundles is not currently in the M-37, Rural Delivery Carriers Duties and Responsibilities Handbook. In accordance with the National Agreement between the Postal Service and the National Rural Letter Carriers Association, the Postal Service has presented to the rural carriers specific language concerning segmentation and the manner in which it intends it to work on rural routes. After reviewing the proposed language, the rural carriers have referred suggested changes which are currently under review.

Under the proposed segmentation procedure for rural routes, mail would be presented to the carrier in the form of either a bundle of a sack of mail. The mail may or may not be in sequential delivery order. The carrier would take the bundle to the street and effect delivery without the need to sort this mail in the office. At the delivery point, the carrier would open the bundle and distribute the individual mail pieces into the appropriate receptacles. Normally, these receptacles are grouped boxes, neighborhood delivery and collection boxes, or apartment, business or mailroom receptacles.

When carriers are given mail for "segments" of their route where delivery can be made at a delivery point, the Postal Service is able to eliminate piece handlings of this mail. Under current procedures, carriers sequence mail into their cases in the office. Upon reaching the delivery point, they sort the sequenced mail into the individual delivery receptacles. Under the segmented bundle process, the carrier time needed to sequence mail in the office would be eliminated.

The segmentation process described above for grouped boxes, neighborhood delivery and collection boxes, apartment, business buildings, and mailrooms is in use in city delivery. As previously stated, the National Rural Letter Carriers Association has offered language changes to the proposed handbook modification and has raised some specific issues concerning the number of mail pieces which should be in a direct bundle, which is a form of segmentation.

THE POSTMASTER GENERAL
Washington, DC 20260-0010

October 17, 1985

Honorable Glenn English
Chairman, Subcommittee on Government
  Information, Justice, and Agriculture
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Congressman English:

This is in response to your September 5 inquiry posing six additional questions for the record of your June 10 hearing on E-COM, INTELPOST, and centralized delivery.

Enclosed, please find the answers to your questions. If you or your staff require additional information, please contact me or Assistant Postmaster General William T. Johnstone, Government Relations Department at 245-4181.

Sincerely,

Paul N. Carlin

Paul N. Carlin

1. At the June 10 hearing, Ms. Uemoto advised the subcommittee that E-COM operations would be cut back over the summer so as to limit additional operating losses. What, specifically, was done between June 10 and September 2 to cut operating costs?

   Please refer to Attachment 1.

2. The Postal Service contracted with Booz, Allen Acquisition Services to assist with the divestiture of E-COM. How much did Booz, Allen receive in connection with this contract?

   $429,013

3. The Postal Service issued numerous statements and releases concerning efforts to sell or lease E-COM. Was there an official announcement of the actual termination of E-COM service? If so, please provide a copy. If not, please explain why no such announcement/release was issued.

   Please refer to Attachment II.

4. In an earlier exchange with the Postal Service, the subcommittee discovered that approximately 2 million E-COM messages were sent by postal officials during Fiscal Year 1984. A recent article in the Federal Times quotes RPMG Penttala as having sent E-COM messages to all 160,000 employees in the Southern Region this year. How many E-COM messages were initiated by postal officials during each year of E-COM operation?

   Please refer to Attachment III for the requested volume figures.

5. In connection with the 1983 E-COM rate case, postal officials developed a schedule that spread E-COM equipment costs over a 7-year period. What, according to that schedule, is the remaining value of that equipment? How much was spent on equipment, laser printers and the like, that was not included in that schedule? What does the Service plan to do with its E-COM equipment?

Equipment - Accumulated Depreciation = $15,397,531
- Book Value = 11,548,148

Equipment purchased for Development = 1,785,100

The Postal Service plans to sell both some of the E-COM equipment and to retain some for its internal needs.

6. In the 1983 rate case witness Redic submitted an "E-COM Financial Summary" showing net operating losses/surpluses on an annual basis. How did the actual losses/surpluses compare with those projected by witness Redic? (Please provide a summary in the same format as Redic's original summary.)

Witness Redic's E-COM financial summary reflected accrual accounting procedures. Actual losses reflect current cash flow. Attachment IV provides the cash flow by year from Fiscal Year 1982 through Accounting Period 12 of Fiscal Year 1985.

SENIOR ASSISTANT POSTMASTER GENERAL
Operations Group
Washington, DC 20260-7000

June 28, 1985

MEMORANDUM FOR REGIONAL POSTMASTERS GENERAL

SUBJECT: E-COM Close Down

Although the possibility of a successful E-COM divestiture effort has not been ruled out and discussions continue with interested parties, we must begin now to reduce USPS costs and prepare for orderly shutdown of the total E-COM system should divestiture ultimately not be accomplished. As the first step in phasing down the E-COM operations you are directed to initiate the following actions:

Serving Post Office (SPO) Hours of Operation -

Beginning Saturday, July 6, weekend E-COM SPO operations will be discontinued. Each of the 25 SPO sites will be available on a continuous basis to receive customer transmissions between 7 AM Monday and 12 midnight Friday, local SPO time. All volume received on the UCS (User Communications Subsystem) prior to midnight Friday must be processed and entered into the First-Class mailstream before preparing the site (preparation procedures attached) for weekend closing.

Each site must be staffed with one fully trained and certified Senior E-COM system operator per tour beginning with Tour 2 on Monday and continuing through Tour 1 on Saturday. However, when all volume received at the SPO site UCS prior to midnight Friday has cleared the E-COM site, the Tour 1 operator can be detailed to other appropriate duties for the balance of that days tour. All other Senior E-COM system operators in excess of those required to staff the scaled back E-COM operation should be detailed to other appropriate activities within the SPO facility. All detailed employees will retain their present schedule and grade level. Only those employees actually performing E-COM functions should continue to be charged to LDC 17.

E-COM Sales and Service Representatives

In August, 1981 each SPO site was authorized one additional Customer Service Representative (CSR) position to allow selection and dedication of one person to E-COM sales and service activities. These dedicated E-COM Sales and Service Representative (ESSR) positions should immediately be merged back into the existing CSR staff and assigned other responsibilities. These positions should now be marked for abolishment when vacated by the incumbent. The Labor Distribution Code (LDC) for these positions should immediately be changed from LDC-17 (Electronic Mail) to LDC-45 (CSR).

It must be understood that while this action is intended to terminate our active solicitation of new E-COM customers, it must in no way diminish our efforts to assist and support those who continue to use the E-COM system.

Regional Technical Support Coordinators

Persons assigned to Ad Hoc Regional Technical Support Coordinator positions should be immediately returned to their position of record. The personal computers, line monitors, modems and software used for customer support activities must be securely packed and returned immediately to the Acting Director, E-COM Operations Office.

E-COM Site Coordinators

It is imperative that persons assigned E-COM site coordination responsibilities at the 25 SPO sites remain in place during the phase down process. A designated contact at each site will assume increasing importance over the next several months.

Your assistance and support in carrying out the above actions is, as usual, much appreciated.

James V Jellison
James V. Jellison

cc: Mrs. Strange
Reg. Directors, Mail Processing
Reg. Directors, Customer Services
MSC Manager/Postmaster - E-COM Serving Post Offices

SPO OPERATING PROCEDURES FOR E-COM 5-DAY WEEK SCHEDULE

I. PERSONNEL -

1. Scheduling and staffing - Develop a schedule to staff the SPO on a Monday through Friday work week. The operating week will begin Monday at 0700 local time and continue through Tour 3 on Friday.

   Only E-COM system operators trained and certified by the Management Academy as qualified are to be used to staff the SPO. E-COM sites will not be operational on Saturday or Sunday and no telecommunications input or messages will be received during this shutdown period.

   NOTE: Transmissions completed on the UCS by 12 midnight on Friday must be processed and dispatched before preparing the site for weekend closing.

2. Coverage for lunches and breaks must be provided by qualified E-COM system operators.

3. Supervision - A specified individual must be identified and given supervisory responsibility for the E-COM operation.

II. SITE SECURITY -

Site security must be maintained at all times. Only authorized personnel may enter the site.

All processing equipment must be prepared for weekend closing as described in Section III below.

Lock and secure the site after completing the processing of all mail received prior to midnight on Friday. The SPO site MSC Manager/Postmaster, or his designee shall be responsible for determining authorized entry during weekend hours.

III. END OF PROCESSING WEEK (2400 FRIDAY) PROCEDURES.

A. UCS

1. Check UCS LA120 and VT100 for completed transmissions or transmissions in progress before taking UCS OFFLINE.
2. If UCS is idle at 2400 on Friday, take UCS OFFLINE - DO NOT SHUT DOWN.
3. If transmission is in progress do a close volume on that transmission. When transmission is complete Disable Line.

4. DISABLE ALL OTHER COMMUNICATION LINES

5. Record ALL completed submissions on the Process History Record.

6. Process all UCS submissions received prior to midnight on the MPS.

7. Label all submissions received after 2400 hours with customer information, date and time from the UCS LA120 printout. Store in designated tape rack for processing on MPS through the remainder of Tour 1 and if necessary on Monday.

B. MPS

1. Check Process History Record for message groups received prior to 2400 hours.

2. Complete printing and dispatch of all message groups received prior to 2400 hours.

3. Take MPS OFFLINE and SHUTDOWN, then Reboot and INITIALIZE new day's message disk.

4. Process any submission received on the UCS after midnight to the extent possible before Tour 1 ends.

5. Note in general log any submissions received after 2400 hours which were not processed on the MPS during Tour 1, or which were inducted but not printed and dispatched.

6. Before closing site, check MPS menu pages 1 and 15 to ensure all unprocessed messages have been recorded in the general log.

   Check the operator LA120 for Killed output. Note in general log any messages or queues that require reprints.

7. Notify MOC via OTO and call OCC when mail processing has ceased giving the time the site is closed.

   LEAVE MPS ONLINE.

8. E-COM supervisor on duty must ensure site is locked and properly secured for the weekend.

IV. START OF PROCESSING WEEK (0700 MONDAY) PROCEDURES.

MPS -

1. Confirm that system date and time are correct.
2. Go OFFLINE - Create Boot Strap Tape for UCS, then RESTART.
3. Process submissions received after 2400 hours on Friday.
4. If there are no prior submissions, do an orderly shutdown and reboot system. Confirm that system date and time are correct.
5. Initialize new message disk.
6. Check equipment status. Notify OCC of all equipment failures and open trouble ticket.
7. Create Boot Strap Tape for UCS.
8. Resume normal operating procedures.

UCS -

1. Do an orderly shutdown of UCS.
2. Reboot and initialize for new day.
   Confirm that date and time are correct.
3. Ensure all communication lines are enabled.
4. Resume normal operating procedures.

Management Operations Center (MOC) Schedule

The MOC will begin operations each week at 7 AM Monday. At that time, the MOC will be fully capable of receiving and processing customer account submissions via the Administrative Network.

The MOC will continue normal three tour operations until the Saturday morning daily close procedures, which will occur as soon as possible after 3 AM when West Coast sites close. MOC operators will then take the Administrative Network off-line and perform the Daily Split procedure to process transactions to be applied to customer accounts from Friday's operations. The Administrative Network will then be brought on-line again and will remain operational during Saturday and Sunday.

The Daily Receipts Report to SPO's processed at this time will be sent to SPO sites via the Administrative Network even though the sites are not staffed.

The next Daily Split processing operation will be performed on Tuesday at 6:30 AM, as usual.

MOC accounting personnel will continue normal operations from 7:30 AM to Midnight, Monday through Friday. There will be no accounting coverage on Saturday or Sunday except for the Saturday following the close of an A/P.

On each Saturday following an A/P end, Accounting personnel will be on Tour 1 to perform the A/P close procedures as normally done. Any discrepancies or account problems at a SPO site will be resolved with the SPO site operator during this tour.

NUMBER: 2136

DATE: 06/04/85

headquarters announcement

POSTAL SERVICE TO TERMINATE E-COM IF DIVESTITURE UNSUCCESSFUL

At the June 4 meeting of the Board of Governors, Postmaster General Paul N. Carlin announced the following:

"Yesterday afternoon, the Board of Governors was briefed on the Postal Service's efforts to divest itself of E-COM equipment. The nub of the matter is that we still have not received any firm offer that is financially attractive enough to be accepted.

"Since E-COM service, as currently constituted, is not paying its way and shows no signs of doing so, I think the time has come to bring things to a head. Accordingly, management will move promptly to terminate its current agreements for access to E-COM facilities. While we do not completely foreclose the possibility of divestiture within the 90-day termination period, we can't count on it, and we will prepare to close down the E-COM system. To that end, we will have an appropriate filing with the Postal Rate Commission ready for Board approval at the next meeting. We intend to suggest that the Commission act quickly so that the close-down process may be completed by the end of the 90-day contract termination period, if at all possible."

Michael S. Coughlin
Senior Assistant Postmaster General
Employee & Labor Relations Group

Edward W. Senft, Actg. Dir.
Office of E-COM Operations
475 L'Enfant Plaza, SW
Washington, DC 20260-7140
09-AUG-85 0945 5568 00080
09-AUG-85 1047 A001 PHI DU

Mr. A. Keith Strange
Contracting Officer
475 L'Enfant Plaza, SW
Washington, DC 20260-6234

All Certified E-COM Users

The Postal Service has confirmed its plans to terminate its Electronic Computer Originated Mail (E-COM) service effective at 12:01 a.m. on Tuesday, September 3, 1985. The Postal Service will continue to accept messages until that time and will process and deliver them within the two-day service standard.

The Postal Service has been seeking a private firm to assume the management and control of the electronic message system since June of 1984. It has continued discussions with parties interested in the system until early this month. The Postal Service has not received any offer that is financially attractive enough to be accepted. The divestiture process has ended and the service will terminate on September 3.

Sincerely,

Edward W. Senft
Acting Director,
Office of E-COM Operations

POSTAL SERVICE

39 CFR Part 111

Withdrawal of Proposed Rule on Designating of Serving Post Offices for Acceptance of Electronic Computer Originated Mail (E-COM)

AGENCY: Postal Service

ACTION: Withdrawal of Proposed Rule

SUMMARY: By a document published elsewhere in this issue the Postal Service is revoking the interim regulations in the Domestic Mail Manual which govern E-COM service. Revocation of the interim regulations necessarily requires withdrawal of any proposal to amend those regulations. Such a proposal was published in the Federal Register on October 21, 1983 (48 FR 48850), with the comment period extended (48 FR 54081). Accordingly, the Postal Service hereby withdraws the above proposal to amend the interim regulations.

EFFECTIVE DATE: September 10, 1985

SUPPLEMENTARY INFORMATION: The historical background and further reasons for withdrawal of the proposed rule appear elsewhere in this issue in a document revoking the Postal Service's interim regulations governing E-COM service.

Fred Eggleston
Fred Eggleston
Assistant General Counsel
Legislative Division

POSTAL SERVICE

39 CFR Part 111

Revocation of Interim E-COM Regulations and Withdrawal of Proposed Rule to Amend Those Regulations

AGENCY: Postal Service.

ACTION: Final Rule.

SUMMARY: Pursuant to the Postal Service's decision to discontinue offering E-COM service on September 3, 1985, and the decision of the Governors of the Postal Service to delete the E-COM provisions from the Domestic Mail Classification Schedule and the Rate Schedules, the Postal Service is revoking the interim regulations in the Domestic Mail Manual which governed E-COM service. We are also withdrawing a proposal to amend the interim regulations.

EFFECTIVE DATE: September 6, 1985.

FOR FURTHER INFORMATION CONTACT: Edward W. Senft, (202) 245-5780.

SUPPLEMENTARY INFORMATION: On June 11, 1984, the Board of Governors of the Postal Service adopted its Resolution No. 84-5, which directed the Postal Service to discontinue offering E-COM service as a postal service. As part of the discontinuation process, on July 6, 1984, the Postal Service filed, pursuant to Chapter 36, Title 39, United States Code, a request with the Postal Rate Commission for a recommended decision on changes to the Domestic Mail Classification Schedule and the Rate Schedules to delete the provisions concerning E-COM service. An explanation of the Postal Service's proposals and an invitation to participate in Commission Docket No. MC84-2 was published in the Federal Register by the Postal Rate Commission on July 17, 1984 (49 FR 28953).

On December 21, 1984, the Postal Rate Commission issued its Opinion and Recommended Decision in Docket No. MC84-2. The Commission recommended that the E-COM provisions be deleted.

On July 10, 1985, pursuant to 39 U.S.C. 3625, the Governors of the Postal Service decided to approve the Commission's recommended decision and order it into effect. The Board of Governors concurrently determined that the changes would become effective at 12:01 a.m. on September 3, 1985. 50 FR 29030 (July 17, 1985).

In accordance with these actions by the Governors and the Board of Governors, the Postal Service discontinued offering E-COM service to the public at 12:01 a.m. on September 3, 1985. The interim regulations in the Domestic Mail Manual concerning E-COM service, which were published in the Federal Register on December 23, 1981, (46 FR 62268 - 73) became obsolete concurrent with the cessation of service. The Postal Service has therefore decided to revoke those regulations.

In connection with this final rule, we are also withdrawing a proposal published in the Federal Register on October 21, 1963 (48 FR 48850), with the comment period extended (48 FR 54081), to amend the interim regulations designating the Serving Post Office (SPOs) at which E-COM messages may be deposited. Revocation of the interim regulations necessarily requires withdrawal of the proposal to amend those regulations.

Accordingly, the Postal Service makes the following amendments of the Domestic Mail Manual, which is incorporated by reference in the Code of Federal Regulations. See 39 CFR 111.1.

List of Subjects in 39 CFR Part 111 Postal Service

PART 111 - [Amended]

Chapter 1 - Domestic Mail Services

1. The authority citation for 39 CFR Part 111 continues to read as follows:

   Authority: 5 U.S.C. 552(a); 39 U.S.C. 401, 404, 407, 408, 3001-3011, 3201-3219, 3403-3405, 3601, 3621; 42 U.S.C. 1973 cc-13, 1973 cc-14.

2. Chapter 1 is amended by removing 115.21(f) and 159.324.

115.2 Opening, Reading, and Searching of Sealed Mail Generally Prohibited

.21 * * * * * *

f. [Removed]

159.3 Address Correction Service, Address Change Service, and Return

* * * * * *

.32 * * * * * *

.324 [Removed]

3. Chapter 3 is amended by removing 326.

320 - Classification

* * * * * *

326 [Removed]

4. Chapter 5 is amended by removing all material in the chapter (510 through 593) and reserving the chapter.

Chapter 5 - [Removed and Reserved]

A transmittal letter making these changes in the pages of the Domestic Mail Manual will be published and will be transmitted to subscribers automatically. Notice of issuance of the transmittal letter will be published in the Federal Register as provided by 39 CFR 111.3.

Fred Eggleston
Fred Eggleston
Assistant General Counsel
Office of General Law
and Administration

Stamp news USA

FOR FURTHER INFORMATION CALL
(202) 245-4144

FOR IMMEDIATE RELEASE
JUNE 5, 1985

GENERAL RELEASE NO. 21

POSTAL SERVICE MAY TERMINATE E-COM SERVICE

The Postal Service has announced plans to terminate its Electronic Computer Originated Mail (E-COM) service as soon as possible if divestiture of the system cannot be accomplished. Management's decision was announced by Postmaster General Paul N. Carlin at the June 4 meeting of the Board of Governors.

Carlin said E-COM customers are being informed of the Postal Service's intent to terminate E-COM operations.

"We will have an appropriate filing with the Postal Rate Commission ready for Board approval at the next meeting," Carlin said. "We intend to suggest that the Commission act quickly so that the close-down process may be completed by the end of the 90-day contract termination period, if at all possible."

Carlin said E-COM service, as presently constituted, is not paying its way or showing signs that it will. USPS will "move promptly to terminate its current agreements for access to E-COM facilities," he said. "While we do not completely foreclose the possibility of divestiture within the 90-day termination period, we can't count on it, and we will prepare to close down the E-COM system."

The Postal Service has been seeking a private firm to assume the management and control of the electronic message system since June 11, 1984. It has since completed a formal offering process and has continued discussions with parties interested in the system. Carlin told the USPS Governors, "The nub of the matter is that we still have not received any firm offer that is financially attractive enough to be accepted."

NEWS

U.S. Postal Service • Washington, DC 20260-3100

For further information call (202) 245-4144

FOR IMMEDIATE RELEASE
JULY 12, 1985

GENERAL RELEASE NO. 25

POSTAL SERVICE TO TERMINATE E-COM SERVICE SEPTEMBER 3

Electronic Computer-Originated Mail (E-COM), which utilizes private telecommunications services to transmit messages and the Postal Service to deliver them, will be terminated September 3, the Postal Service has announced.

The agency said it remains free to postpone the termination, however, if subsequent developments make it clear that a qualified purchaser of E-COM is ready to take it over.

The termination announcement was made after the Postal Service's Governors approved on July 10 a recommended decision from the independent Postal Rate Commission to remove E-COM from the domestic mail classification schedule. The Postal Service filed a request for such a recommendation in July 1984.

The Postal Service has been seeking to divest itself of E-COM since June 11, 1984. Postmaster General Paul N. Carlin had said earlier that E-COM, as currently constituted, is not paying its way or showing signs that it will. Carlin said no acceptable offer to buy or lease the system has yet been received from any qualified private firm.

E-COM service began January 4, 1982 at 25 specially equipped post offices across the country. It allows businesses that generate mail from computer-stored data to transmit their messages electronically to computers in one or more serving post offices where they are transformed into hard copy and delivered within two business days.

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E-COM MESSAGE VOLUME

Year	AP1	AP2	AP3	AP4	AP5	AP6	AP7
1982 Commercial				10,292	30,897	33,499	54,735
1982 USPS				12,646	4,260	5,376	7,921
1982 Total				22,938	35,157	38,875	62,656
1983 Commercial	907,038	1,412,837	809,538	584,581	1,133,423	1,638,474	1,263,047
1983 USPS	41,290	50,795	37,454	15,660	15,954	18,092	28,803
1983 Total	948,328	1,463,632	846,992	600,241	1,149,377	1,656,566	1,291,850
1984 Commercial	1,742,294	2,108,420	1,443,062	1,334,065	1,427,152	1,631,745	1,763,349
1984 USPS	115,228	132,190	65,828	62,653	40,168	113,116	171,951
1984 Total	1,857,522	2,240,610	1,508,890	1,396,718	1,467,320	1,744,861	1,935,300
1985 Commercial	1,939,076	1,975,150	2,114,012	1,610,052	1,639,367	1,699,547	1,699,547
1985 USPS	102,110	58,605	47,818	43,314	37,502	34,356	132,811
1985 Total	2,041,186	2,033,755	2,161,830	1,653,366	1,676,869	1,733,903	2,306,222
Total Commercial	4,588,408	5,496,407	4,366,612	3,538,990	4,230,839	5,003,265	5,234,542
Total USPS	258,628	241,580	151,100	134,273	97,884	170,940	341,486
Total Volume	4,847,036	5,737,997	4,517,712	3,673,263	4,328,723	5,174,205	5,596,028
% Commercial	94.66%	95.79%	96.66%	96.34%	97.74%	96.70%	93.90%

E-COM MESSAGE VOLUME (Continued)

Year	AP8	AP9	AP10	AP11	AP12	AP13	FY Total
1982 Commercial	133,144	216,189	228,103	675,932	778,282	1,068,183	3,229,256
1982 USPS	15,822	2,031	98,202	4,843	25,215	46,020	222,336
1982 Total	148,966	218,220	326,305	680,775	803,497	1,114,203	3,451,592
1983 Commercial	1,159,974	1,245,251	1,030,767	1,357,269	1,519,321	1,258,868	15,320,388
1983 USPS	41,290	50,795	37,454	28,784	65,374	40,311	424,414
1983 Total	1,196,162	1,261,742	1,059,985	1,386,053	1,584,695	1,299,179	15,744,802
1984 Commercial	1,965,584	1,923,747	2,076,347	1,999,389	1,862,777	1,711,722	22,989,653
1984 USPS	517,866	442,504	94,327	97,471	71,985	75,905	2,001,192
1984 Total	2,483,450	2,366,251	2,170,674	2,096,860	1,934,762	1,787,627	24,990,845
1985 Commercial	1,614,992	1,777,029	1,882,019	1,639,999	1,850,940	—	21,915,594
1985 USPS	66,093	177,873	198,269	98,202	135,319	—	1,232,272
1985 Total	1,781,085	1,954,902	2,080,288	1,738,201	1,986,259	—	23,147,866
Total Commercial	4,873,694	5,162,216	5,217,236	5,672,589	6,011,320	4,038,773	63,454,891
Total USPS	635,969	638,899	430,016	229,300	297,893	162,236	3,880,214
Total Volume	5,609,663	5,801,115	5,637,252	5,901,889	6,309,213	4,201,009	67,335,105
% Commercial	86.88%	88.99%	92.55%	96.11%	96.24%	96.14%	94.27%

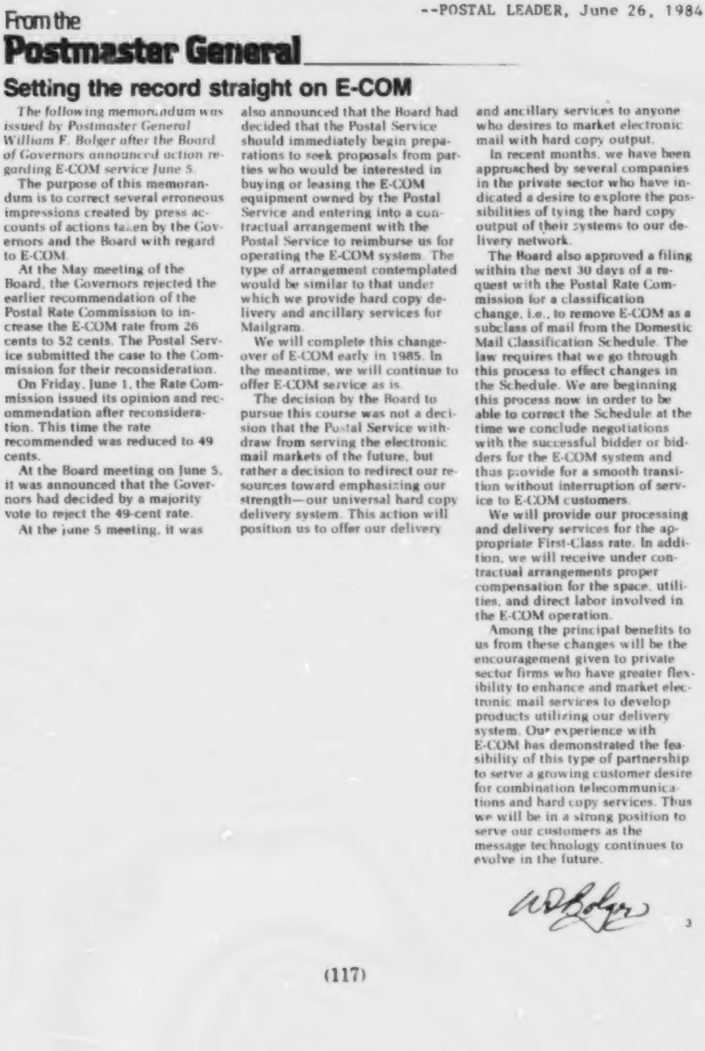
E-COM COST/REVENUE SUMMARY
CASH-FLOW BASIS
(000)

	FY 1982	FY 1983	FY 1984	FY 1985	TOTAL
VOLUME (pcs)	3,229	15,321	22,990	21,916	63,456
REVENUE	1,075	4,489	6,538	5,831	17,933
OPERATING COST	9,528	16,967	18,476	13,952	58,923
OPERATING LOSS	-8,453	-12,478	-11,938	-8,121	-40,990
INVESTMENTS	40,238	14,943	4,616	112	59,910
TOTAL LOSS	$-48,691	$-27,421	$-16,554	$-8,233	$-100,900

[Whereupon, at 4:05 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIXES

APPENDIX 1.—U.S. POSTAL SERVICE ANNOUNCEMENTS CONCERNING THE SALE AND/OR TERMINATION OF E-COM



--POSTAL LEADER, June 26, 1984

From the

Postmaster General

Setting the record straight on E-COM

The following memorandum was issued by Postmaster General William F. Bolger after the Board of Governors announced action regarding E-COM service June 5.

The purpose of this memorandum is to correct several erroneous impressions created by press accounts of actions taken by the Governors and the Board with regard to E-COM.

At the May meeting of the Board, the Governors rejected the earlier recommendation of the Postal Rate Commission to increase the E-COM rate from 26 cents to 52 cents. The Postal Service submitted the case to the Commission for their reconsideration.

On Friday, June 1, the Rate Commission issued its opinion and recommendation after reconsideration. This time the rate recommended was reduced to 49 cents.

At the Board meeting on June 5, it was announced that the Governors had decided by a majority vote to reject the 49-cent rate.

At the June 5 meeting, it was also announced that the Board had decided that the Postal Service should immediately begin preparations to seek proposals from parties who would be interested in buying or leasing the E-COM equipment owned by the Postal Service and entering into a contractual arrangement with the Postal Service to reimburse us for operating the E-COM system. The type of arrangement contemplated would be similar to that under which we provide hard copy delivery and ancillary services for Mailgram.

We will complete this changeover of E-COM early in 1985. In the meantime, we will continue to offer E-COM service as is.

The decision by the Board to pursue this course was not a decision that the Postal Service withdraw from serving the electronic mail markets of the future, but rather a decision to redirect our resources toward emphasizing our strength—our universal hard copy delivery system. This action will position us to offer our delivery and ancillary services to anyone who desires to market electronic mail with hard copy output.

In recent months, we have been approached by several companies in the private sector who have indicated a desire to explore the possibilities of tying the hard copy output of their systems to our delivery network.

The Board also approved a filing within the next 30 days of a request with the Postal Rate Commission for a classification change, i.e., to remove E-COM as a subclass of mail from the Domestic Mail Classification Schedule. The law requires that we go through this process to effect changes in the Schedule. We are beginning this process now in order to be able to correct the Schedule at the time we conclude negotiations with the successful bidder or bidders for the E-COM system and thus provide for a smooth transition without interruption of service to E-COM customers.

We will provide our processing and delivery services for the appropriate First-Class rate. In addition, we will receive under contractual arrangements proper compensation for the space, utilities, and direct labor involved in the E-COM operation.

Among the principal benefits to us from these changes will be the encouragement given to private sector firms who have greater flexibility to enhance and market electronic mail services to develop products utilizing our delivery system. Our experience with E-COM has demonstrated the feasibility of this type of partnership to serve a growing customer desire for combination telecommunications and hard copy services. Thus we will be in a strong position to serve our customers as the message technology continues to evolve in the future.

Released April 4, 1985 Contact: Jim Van Loozen

STATEMENT ON E-COM DIVESTITURE PROCESS:

The Postal Service has announced that it will, for a limited period of time, continue to discuss the divestiture of its Electronic Computer Originated Mail (E-COM) system with all interested parties.

USPS is seeking to transfer management and control of the system to private industry.

The Postal Service recently concluded evaluations of proposals from firms responding to an offering document released last October 10. No offers acceptable to the Postal Service were received through this process.

Discussions are now taking place with firms who have expressed an interest in the system.

The Postal Service will evaluate all offers as received. An offer may be accepted without further discussion with other offerors or potential offerors.

Interested parties should contact the contracting officer, Keith Strange, (202) 245-5194.

NEWS

U.S. Postal Service • Washington, DC 20260-3100

For further information call Jim Van Loozen (202) 245-4144

For Release May 8, 1985

STATEMENT ON E-COM DIVESTITURE PROCESS

Postal Service management announced today that it is continuing to discuss divestiture of its Electronic Computer-Originated Mail (E-COM) system with interested parties.

USPS expressed optimism that the transfer of management and control of the system to private industry will be accomplished.

The Postal Service extended the divestiture discussions in April and continues discussions with firms who have expressed an interest in the system.

The Postal Service is evaluating all offers as they are received and said that an offer may be accepted at any time, without further discussion with other offerors or potential offerors.

The Postal Service continues to operate the E-COM system as the divestiture discussions progress. E-COM volume continues to be about a half-million pieces per week.

Interested parties may obtain information about the divestiture process and the E-COM system from the contracting officer, Keith Strange, (202) 245-5194.

NEWS

U.S. Postal Service • Washington, DC 20260-3100

For further information call (202) 245-4144

FOR IMMEDIATE RELEASE
JUNE 5, 1985

GENERAL RELEASE NO. 21

POSTAL SERVICE MAY TERMINATE E-COM SERVICE

The Postal Service has announced plans to terminate its Electronic Computer Originated Mail (E-COM) service as soon as possible if divestiture of the system cannot be accomplished. Management's decision was announced by Postmaster General Paul N. Carlin at the June 4 meeting of the Board of Governors.

Carlin said E-COM customers are being informed of the Postal Service's intent to terminate E-COM operations.

"We will have an appropriate filing with the Postal Rate Commission ready for Board approval at the next meeting," Carlin said. "We intend to suggest that the Commission act quickly so that the close-down process may be completed by the end of the 90-day contract termination period, if at all possible."

Carlin said E-COM service, as presently constituted, is not paying its way or showing signs that it will. USPS will "move promptly to terminate its current agreements for access to E-COM facilities," he said. "While we do not completely foreclose the possibility of divestiture within the 90-day termination period, we can't count on it, and we will prepare to close down the E-COM system."

(more)

PS Form 302
June 1981

The Postal Service has been seeking a private firm to assume the management and control of the electronic message system since June 11, 1984. It has since completed a formal offering process and has continued discussions with parties interested in the system. Carlin told the USPS Governors, "The nub of the matter is that we still have not received any firm offer that is financially attractive enough to be accepted."

39 CFR Part 111

Withdrawal of Proposed Rule on Designating of Serving Post Offices for Acceptance of Electronic Computer Originated Mail (E-COM)

AGENCY: Postal Service.

ACTION: Withdrawal of proposed rule.

SUMMARY: By a document published elsewhere in this issue the Postal Service is revoking the interim regulations in the Domestic Mail Manual which govern E-COM service. Revocation of the interim regulations necessarily requires withdrawal of any proposal to amend those regulations. Such a proposal was published in the **Federal Register** on October 21, 1983 (48 FR 48880), with the comment period extended (48 FR 54081). Accordingly, the Postal Service hereby withdraws the above proposal to amend the interim regulations.

EFFECTIVE DATE: Withdrawal effective September 10, 1985.

SUPPLEMENTARY INFORMATION: The historical background and further reasons for withdrawal of the proposed rule appear elsewhere in this issue in a document revoking the Postal Service's interim regulations governing E-COM service.

Fred Eggleston,

Assistant General Counsel, Legislative Division.

[FR Doc. 85-21376 Filed 9-9-85; 8:45 am]

BILLING CODE 7710-12-M

POSTAL SERVICE

39 CFR Part 111

Revocation of Interim E-COM Regulations

AGENCY: Postal Service.

ACTION: Final rule.

SUMMARY: Pursuant to the Postal Service's decision to discontinue offering E-COM service on September 3, 1985, and the decision of the Governors of the Postal Service to delete the E-COM provisions from the Domestic Mail Classification Schedule and the Rate Schedules, the Postal Service is revoking the interim regulations in the Domestic Mail Manual which governed E-COM service.

EFFECTIVE DATE: September 10, 1985.

FOR FURTHER INFORMATION CONTACT: Edward W. Senft, (202) 245-5780.

SUPPLEMENTARY INFORMATION: On June 11, 1984, the Board of Governors of the Postal Service adopted its Resolution No. 84-5, which directed the Postal Service to discontinue offering E-COM service as a postal service. As part of the discontinuation process, on July 6, 1984, the Postal Service filed, pursuant to Chapter 36, Title 39, United States Code, a request with the Postal Rate Commission for a recommended decision on changes to the Domestic Mail Classification Schedule and the Rate Schedules to delete the provisions concerning E-COM service. An explanation of the Postal Service's proposals and an invitation to participate in Commission Docket No. MC84-2 was published in the **Federal Register** by the Postal Rate Commission on July 17, 1984 (49 FR 28953).

On December 21, 1984, the Postal Rate Commission issued its Opinion and Recommended Decision in Docket No. MC84-2. The Commission recommended that the E-COM provisions be deleted.

On July 10, 1985, pursuant to 39 U.S.C. 3625, the Governors of the Postal Service decided to approve the Commission's recommended decision and order it into effect. The Board of Governors concurrently determined that the changes would become effective at 12:01 a.m. on September 3, 1985. 50 FR 29030 (July 17, 1985).

In accordance with these actions by the Governors and the Board of Governors, the Postal Service discontinued offering E-COM service to the public at 12:01 a.m. on September 3, 1985. The interim regulations in the Domestic Mail Manual concerning E-COM service, which were published in the **Federal Register** on December 23, 1981 (46 FR 62268-73) became obsolete concurrent with the cessation of service. The Postal Service has therefore decided to revoke those regulations.

Accordingly, the Postal Service makes the following amendments of the Domestic Mail Manual, which is incorporated by reference in the Code of Federal Regulations. See 39 CFR 111.1

List of Subjects in 39 CFR Part 111

Postal Service.

PART 111—[AMENDED]

1. The authority citation for 39 CFR Part 111 continues to read as follows:

Authority: 5 U.S.C. 552(a); 39 U.S.C. 401, 404, 407, 408, 3001–3011, 3201–3219, 3403–3405, 3601, 3621; 42 U.S.C. 1973 cc–13, 1973 cc–14.

CHAPTER 1—DOMESTIC MAIL SERVICES

2. Chapter 1 is amended by removing 115.21(f) and 159.324.

115.2 Opening, Reading, and Searching of Sealed Mail Generally Prohibited.

.21 * * *

f. [Removed]

159.3 Address Correction Service, Address Change Service, and Return

* * * * *

.32 * * *

.324 [Removed].

3. Chapter 3 is amended by removing 328.

320—Classification.

* * * * *

.328 [Removed].

4. Chapter 5 is amended by removing all material in the chapter (510 through 593) and reserving the chapter.

CHAPTER 5—[REMOVED AND RESERVED]

A transmittal letter making these changes in the pages of the Domestic Mail Manual will be published and will be transmitted to subscribers automatically. Notice of issuance of the transmittal letter will be published in the **Federal Register** as provided by 39 CFR 111.3.

Fred Eggleston,

Assistant General Counsel, Office of General Law and Administration.

[FR Doc. 85-21256 Filed 9-9-85; 8:45 am]

BILLING CODE 7710-12-M

POSTAL RATE COMMISSION

39 CFR Part 3001

[Docket No. MC 84-2; Order No. 631]

Amendments to Domestic Mail Classification Schedule; Deletion of E-COM Provisions

Issued: September 6, 1985.

AGENCY: Postal Rate Commission.

ACTION: Final rule.

SUMMARY: In accordance with the July 10, 1985, adoption of the Postal Rate Commission's recommended Docket No. MC84-2 decision by the Governors of the Postal Service, the Commission is publishing the corresponding changes for the Domestic Mail Classification Schedule (DMCS). The DMCS is found as Appendix A to Subpart C of the Commission's rules of practice and procedure (39 CFR 3001.61 through 3001.67). These changes eliminate the Electronic-Computer Originated Mail (E-COM) service offering from the DMCS.

EFFECTIVE DATE: These changes became effective on September 3, 1985.

ADDRESSES: Correspondence should be sent to Charles L. Clapp, Secretary of the Commission, 1333 H Street, NW., Washington, D.C. 20268 (telephone: 202/789-6840).

FOR FURTHER INFORMATION CONTACT: David F. Stover, General Counsel, 1333 H Street, NW., Washington, D.C. 20268 (telephone: 202/789-6820).

SUPPLEMENTARY INFORMATION: On July 6, 1984, the Postal Service filed a request with the Commission for a recommended decision that the E-COM service offering be eliminated from the DMCS. The Commission published a notice of the filing in the Federal Register (49 FR 28963 (July 17, 1984)). Following the provision of an opportunity for a hearing on the record under sections 556 and 557 of Title 5, the Commission, on December 21, 1984, issued a decision recommending the elimination of the E-COM service offering from the DMCS. The Governors of the Postal Service approved the recommended decision on July 10, 1985, and the Board of Governors set September 3, 1985, as the effective date of the changes. The changes in the DMCS which are published in this order reflect the Governors' decision, and became effective September 3, 1985. Consistent with the Commission's explanation in the rulemaking (Docket No. RM85-1) which lead to the publication of the DMCS in the Federal Register, these changes are published as final rules, since procedural safeguards and an ample opportunity to have different viewpoints considered has already been afforded to all interested persons. *See* 50 FR 21629 (May 28, 1985).

List of Subjects in 39 CFR Part 3001

Administrative practice and procedure, Postal Service.

PART 3001—RULES OF PRACTICE AND PROCEDURE

Subpart C—Rules Applicable to Requests for Establishing or Changing the Mail Classification Schedule

1. The authority citation for 39 CFR Part 3001 continues to read as follows:

Authority: 39 U.S.C. 3603, 3622, 3623, 84 Stat. 759–761; (5 U.S.C. 553), 80 Stat. 383, unless otherwise noted.

2. The following changes in the Domestic Mail Classification Schedule published as Appendix A to Subpart C (39 CFR 3001.61 through 3001.67) of the Commission's rules of practice and procedure are adopted:

a. Sections 100.024, 100.044, 100.045, 100.051, 100.052, 100.0521, 100.0522 and 100.101 and Rate Schedule 104 are removed.

b. Section 100.020 is amended to read as follows:

100.020 Regular Mail

Regular First-Class Mail consists of mailable matter posted at First-Class regular rates, weighing 12 ounces or less, and not mailed or eligible for mailing under sections 100.0201, 100.021, 100.0211, 100.022, 100.0221, or 100.023.

c. Section 100.08 is amended to read as follows:

100.08 Ancillary Services.

100.080 First-Class Mail, except as otherwise noted, will receive the following additional services upon payment of appropriate fees:

	Classification schedule
a. Address correction	SS-1.
b. Business reply mail (except ZIP + 4 rate category mail).	SS-2.
c. Certificates of mailing	SS-4.
d. Certified mail	SS-5.
e. C.O.D.	SS-6.
f. Insured mail	SS-9.
g. Registered mail (except ZIP + 4 rate category mail).	SS-14.
h. Special delivery	SS-17.
i. Merchandise return	SS-20.

d. In section 100.080, remove "e. Electronic Computer Originated Mail 104" and redesignate "f. Fees 1000" to become "e. Fees 1000."

e. In Rate Schedule 1000, remove the following:

First-Class Mailing Fee	
E-COM Annual Fee	$50.00

By the Commission.

Cyril J. Pittack,

Acting Secretary.

[FR Doc. 85-21880 Filed 9-11-85; 8:45 am]

BILLING CODE 7715-01-M

APPENDIX 2.—U.S. POSTAL SERVICE NOTICES BY CONTRACTING OFFICER CONCERNING SALE AND/OR TERMINATION OF E-COM

Office of E-COM Operations
475 L'Enfant Plaza, SW
Washington, DC 20260-7140
08-JUN-84 1441 9325 00639
08-JUN-84 1526 A001 DAL DU

Dear E-COM Users:

The purpose of this E-COM Message is to correct several erroneous impressions created by press accounts of actions taken this week by the Governors and the Board with regard to E-COM.

At the May meeting of the Board, the Governors rejected the earlier recommendation of the Postal Rate Commission to increase the E-COM rate from 26 cents to 52 cents. The Postal Service resubmitted the case to the Commission for their reconsideration.

On Friday, June 1, the Rate Commission issued its opinion and recommendation after reconsideration. This time the rate recommended was reduced to 49 cents.

At the Board meeting on June 5, it was announced that the Governors had decided by a majority vote to reject the 49 cents rate.

At the June 5 meeting, it was also announced that the Board had decided that the Postal Service should immediately begin preparations to seek proposals from parties who would be interested in buying or leasing the E-COM equipment owned by the Postal Service and entering into a contractual arrangement with the Postal Service to reimburse us for operating the E-COM system. The type of arrangement contemplated would be similar to that under which we provide hard copy delivery and ancillary services for Mailgram.

We will complete this changeover of E-COM early in 1985. In the meantime, we will continue to offer E-COM service as is.

The decision by the Board to pursue this course was not a decision that the Postal Service withdraw from serving the electronic mail markets of the future, but rather a decision to redirect our resources toward emphasizing our strength--our universal hard copy delivery system. This action will position us to offer our delivery and ancillary services to anyone who desires to market electronic mail with hard copy output.

In recent months, we have been approached by several companies in the private sector who have indicated a desire to explore the possibilities of tying the hard copy output of their systems to our delivery network.

The Board also approved a filing within the next thirty days of a request with the Postal Rate Commission for a classification change, i.e., to remove E-COM as a subclass of mail from the Domestic Mail Classification Schedule. The law requires that we go through this process to effect changes in the Schedule. We are beginning this process now in order to be able to correct the Schedule at the time we conclude negotiations with the successful bidder or bidders for the E-COM system and thus provide for a smooth transition without interruption of service to E-COM customers.

We will provide our processing and delivery services for the appropriate First Class rate. In addition, we will receive under contractual arrangements proper compensation for the space, utilities, and direct labor involved in the E-COM operation.

Among the principal benefits to us from these changes will be the encouragement given to private sector firms who have greater flexibility to enhance and market electronic mail services to develop products utilizing our delivery system. Our experience with E-COM has demonstrated the feasibility of this type of partnership to serve a growing customer desire for combination telecommunications and hard copy services. Thus we will be in a strong position to serve our customers as the message technology continues to evolve in the future.

Sincerely,

William F. Bolger
(Postmaster General of the United States)

UNITED STATES POSTAL SERVICE
475 L'Enfant Plaza, SW
Washington, DC 20260

Gentlemen:

Thank you for your recent inquiry concerning the status of the E-COM system.

The Board of Governors of the U.S. Postal Service has decided to transfer ownership of the E-COM system to the private sector. To effect this decision, USPS management has initiated a divestiture program and we have engaged Booz Allen Acquisition Services, Inc., a subsidiary of Booz, Allen & Hamilton, Inc. to assist us with the program.

The enclosed document, prepared by Booz, Allen, is provided to help you understand the E-COM operation and to facilitate any analysis you require preparatory to tendering an offer. The document also describes the divestiture process established and the key dates for this transaction. (NOTE: Please sign and return the agreement on the page following the document cover).

We welcome any questions you have on this situation and stand ready to assist you in every way practical as you consider this opportunity.

Sincerely,

A. Keith Strange
Contracting Officer
Office of Contracts

cc: Mr. Edward H. Schwallie, President
Booz, Allen Acquisition Services, Inc.

UNITED STATES POSTAL SERVICE
475 L'Enfant Plaza, SW
Washington, DC 20260

September 10, 1984

Dear Prospective Buyer:

We are sending you the enclosed introductory material in response to your expressed interest in the divestiture of the E-COM equipment. We hope that it will prove informative to you. We now anticipate that an offering document will be released in early October.

In order to provide further information on E-COM related subjects, we have set up a reading room at U.S. Postal Service Headquarters. This room contains a very large collection of material for the convenience of all interested parties. In order that all parties have equal access, we are limiting distribution of this material to public access in the reading room. Copy facilities will be available.

The E-COM Reading Room will be open from 9:00 AM to 4:00 PM at the Office of E-COM Operations, Room 6636, 475 L'Enfant Plaza, Washington, DC. Please sign in with the guard at the north end of the building and take that elevator to the sixth floor. We request that you sign our user's log each time you enter or leave the Reading Room. You will also be asked to agree to certain conditions in order to use this facility. A copy of the agreement form is enclosed in this package for your information.

If you have any questions, please call me at (202) 245-4865.

Sincerely,

A. Keith Strange

A. Keith Strange
Contracting Officer
Office of Contracts

Enclosure

E-COM STATUS

August 1984

1. Volume Trends

E-COM service became operational on January 1982. Since January 1982, the following customer/volumes have been experienced.

	FY 82	FY 83	YTD FY 84	Total
Customer Applications	611	1,168	896	2,675
Customer Certified	81	417	540	1,038
Volume (In thousands)	3,229	15,320	20,412	38,961

2. Service Enhancements

The Postal Service has decided for the present not to implement the proposals to provide a Business Reply (No Postage Stamp Necessary)/Courtesy Reply (Postage Stamp Required) envelope insert service option and to eliminate the 200 message minimum requirement.

System Enhancements (Optional)

Research is underway to:

a. Increase the system printing capacity through the use of laser printers technology (1985).

b. Provide graphic (logos, multifont etc.) 1985.

3. Planned Expansion

It is anticipated expansion of the system will occur in the vicinity of 350 to 500 million messages annually. Additional printers, users communications subsystems, etc. will be added to accommodate the increased volume as necessary up to the time for expansion.

1. Situation of use of E-COM Items according to studies by Opinion Research Corporation (1981 and 1983)

   (1) Items classified by activity of sender

   Example: Financial Business
   Manufacturing Industry

As E-COM continues to mature, it is anticipated the marketplace will be dominated (generate 87% of the E-COM messages) by four major mailing industries - finance, services, manufacturing and wholesale. In a less dominent role (generate 13% of E-COM message) it is expected retail, agriculture/mining and transportation/utility industries will participate utilizing the E-COM service.

Industry	% of E-COM Messages
Finance	30%
Service	20%
Manufacturing	16%
Wholesale	11%
Retail	7%
Agriculture/Mining	4%
Transportation/Utility	2%
	100%

The marketplace has a potential of over 15,000 users. Approximately 80% are considered to be medium to small size users. It is estimated that each medium to small user will generate approximately 29,000 messages a year.

(2) Structure of Use

Example: DM (Direct Mail)
Claim

The key types of mailing utilizing the E-COM service are considered to be invoices/bills, notices, advertising messages (DM) and general correspondence.

The following table shows the specific percentage of the various types of messages:

Type	% of E-COM Messages
Notices/Collection Notices	32%
Invoices/Bills	27%
Advertising	23%
Correspondence	12%
Volume Mailings	3%
Others	3%
	100%

(3) Items classified by kinds of service and purpose of use

Example: Variable messages
Common messages
Personalized messages
Financial mail etc.

The E-COM services offer three types of messages. The anticipated message type use profile is as follows:

	Type	% of E-COM Messages
a.	Text Insert Message (Variable Messages)	23%
b.	Common Text Messages (Common Messages)	37%
c.	Single Address Messages (Personalized Messages)	40%
		100%

Currently, approximately 25% of the volume consists of two page messages.

Mr. KeitH Strange
U.S. Postal Service
475 L'Enfant Plaza S.W.
Washington, DC 20260-4034
14-NOV-84 1736 0713 12155
14-NOV-84 1753 E002 WAS DU

November 13, 1984

Dear Mr.

CURRENT STATUS OF THE E-COM SERVICE

This is an information update for all prospective offerors for the E-com service.

1. E-COM OPERATING PERFORMANCE: E-COM volume continues to grow. 24,989,000 messages were processed by the E-COM service in the fiscal year 1984. Current weekly volumes are averaging more than 500,000 letters for the first four weeks of fiscal 1985. There has been no material change in E-COM customer accounts; new account applications continue to be processed.

2. NEW E-COM SOFTWARE DEVELOPMENTS: Version 4.0 of the E-COM software was installed in October, containing the reply envelope insertion service. This reply envelope capability is available in all 25 sites, although the USPS does not have the authority from the Postal Rate Commission to provide this service.

3. USPS HEADQUARTERS FIRE: There was no damage to the E-COM operation caused by the fire which occurred at USPS Headquarters at L'Enfant Plaza in Washington, D.C. on the evening of October 15, 1984. The only E-COM facility in that building is the Office of E-COM Operations and, with the exception of a little soot, nothing was harmed. Following the fire clean-up, the E-COM Reading Room is open again for business from 9:00 AM to 4:00 PM. It is necessary that you call the Office of E-COM Operations (202-245-5780) before your arrival so arrangements can be made for your entry into the building.

<cE002>.<g0713> <m12155> <s26> <z01754>

4. REMINDER ON THE E-COM SCHEDULE: E-COM offers are due on or before December 14, 1984. Four copies should be sent or delivered to:

   Mr. Keith Strange
   U.S. Postal Service
   Room 1123
   475 L'Enfant Plaza, S.W.
   Washington, D.C. 20260-6034

   The offers will be evaluated by the Postal Service with the assistance of Booz-Allen Acquisition Services, Inc. Information contained in the offers will be considered confidential business information and will be used only for the purpose of evaluating the offers.

We remain available to assist interested parties in developing their E-COM offers, including arranging visits to E-COM Serving Post Offices (SPOs) and other E-COM facilities. Please feel free to contact me or Ed Schwallie and Bob Tyre at Booz-Allen Acquisition Services (212-697-1900) if you have any questions or concerns.

Sincerely,

Keith Strange

Gentlemen:

This is a reminder that proposals for the E-COM system are due by close of business December 14, 1984.

If you need any additional information please feel free to call me or Booz-Allen Acquisition Services.

The following questions received and Postal Service responses are provided for your information:

1. Will the Postal Service consider payment terms other than cash up-front?

   Response
   Yes. The Postal Service will consider reasonable offers for other than up-front cash payment.

2. Does the Postal Service expect to recover 100% of its investment in the E-COM system?

   Response
   The Postal Service will consider all offers in accordance with the evaluation criteria provided in the offering document. Prices less than the original investment may be acceptable.

3. Is the Postal Service willing to be flexible regarding SPO staffing and scheduling?

   Response
   Yes. The Postal Service will be willing to consider less than full shift staffing and operation of less than 25 SPO locations.

Sincerely,

A. Keith Strange
Office of Contracts

A. KEITH STRANGE
OFFICE OF CONTRACTS
U.S. POSTAL SERVICE HQS.
WASHINGTON, DC 20260-6230
04-APR-85 1831 1018 00014
04-APR-85 1857 A087 CLT AD

MAIL AD SERVICE ASSOC. INT'L
ATTN: ROBERT HUSE
7315 WISCONSIN AVE., S 440W
BETHESDA MD 20814-3245

Gentlemen:

The divestiture process for the E-COM system as described in the offering document released on October 10, 1984 has concluded. There were no acceptable offers received from this process. Discussions are now taking place with parties who have expressed an interest. The Postal Service will engage in discussions with any interested parties for a limited period of time and will evaluate offers as received. An offer may be accepted without further discussion with other offerors or potential offerors. If you have any questions, please feel free to contact me on 202/245-5194.

Sincerely,

A. Keith Strange
Contracting Officer
Office of Contracts

APPENDIX 3.—U.S. POSTAL SERVICE MISCELLANEOUS CORRESPONDENCE CONCERNING E-COM

U.S. Department of Justice

Antitrust Division

Office of the Deputy Assistant Attorney General

Washington, D.C. 20530

January 25, 1985

Honorable Paul N. Carlin
Postmaster General
United States Postal Service
475 L'Enfant Plaza, S.W.
Washington, D.C. 20260

Dear Mr. Carlin:

As you know, the Department of Justice has participated in the administrative proceedings involving the competitive implications of the Postal Service's offering of E-COM service and its request that E-COM be deleted from the Domestic Mail Classification Schedule. As an outgrowth of our prior involvement, the Department has followed with interest the Postal Service's announced plan to divest the E-COM system to the private sector. It has been alleged to us recently that there are certain implicit terms in the Postal Service's offer that are not reflected in the "offering statement" prepared by Booz-Allen Acquisition Services, Inc. We thought we should bring this matter to your attention because we believe that, if the allegations are true, at least one of the implicit terms not only raises a serious question under the Postal Reorganization Act, but also may have substantial anticompetitive consequences.

We have been informed that the firm ultimately purchasing the E-COM system will receive a guarantee, albeit informal, that E-COM letters exiting the Serving Post Office ("SPO") 1/ by 11:00 p.m., or before 12:00 midnight at some SPOs, will be placed into the Postal Service mailstream that same day. 2/ In

---

1/ As you know, the E-COM system consists of special equipment located in twenty-five SPOs around the country.

2/ In addition, it may even be the case that E-COM letters exiting the SPO before the last "dispatch of value" at central Post Offices, typically 3:00 a.m., will be entered into the mailstream.

contrast, regular presort first-class mail customers, including "electronic mail" firms utilizing the Postal Service for delivery of hardcopy output of Generation II electronic mail systems, will be required to deliver their letters by 5:00 p.m., or 6:00 p.m. at some Post Offices, in order to receive assurance that their mail is entered into the Postal Service mailstream the same day. Some Post Offices may allow special arrangements for later presort first-class mail delivery by regular customers up to 7:30 p.m., although we have been informed that such arrangements may also entail a risk that entry of such deliveries into the mailstream will be delayed.

If the allegations made to the Department are true, it is evident from the above that the firm or firms purchasing the E-COM system will be provided with more advantageous terms for entry of E-COM mail into the mailstream than those offered to competing private firms utlizing the Postal Service for delivery of presort first-class mail. At a minimum, a differential of at least three and one-half hours (7:30 p.m. as compared to 11:00 p.m.) would be involved. Such a differential would appear to create a situation in which discriminatory or preferential mail acceptance terms are being offered in connection with the Postal Service's efforts to dispose of the E-COM system to the private sector. In essence, the Postal Service would be recouping its investment in E-COM by selling a competitive advantage to the purchaser of the E-COM equipment.

Discrimation among users of the mails, or preferences to specific users, is specifically prohibited by the Postal Reorganization Act. Unless "specifically authorized," the Postal Service "shall not . . . make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user." 39 U.S.C. § 403(c). Nothing in the Act, or in the Postal Rate Commission's Opinion recommending declassification of E-COM service, purports to authorize the Postal Service to grant a preference for acceptance of mail to the purchaser or purchasers of the E-COM system. Accordingly, if the sale of the E-COM system includes an explicit or implicit guarantee of later acceptance of mail than offered to regular presort first-class mail users, the terms of sale would raise serious questions of legality under the Act.

Additionally, this type of discrimination by the Postal Service would raise serious competitive questions. The Postal Service is granted a monopoly over the delivery of "letter mail" by the Private Express Statutes. The Private Express Statutes, however, have never been construed to cover E-COM service, and therefore the Postal Service would not be authorized to extend, or attempt to extend, the scope of its stautory monopoly into the "electronic mail" market. If the allegations made to us are accurate, it would appear that the Postal Service is attempting to utilize its monopoly over mail delivery to gain a significant competitive advantage for the purchaser of the E-COM system. The grant -- or in this case, the sale -- of such an advantage is plainly inconsistent with free competition and could have substantial anticompetitive consequences in the market for electronic mail services.

The Department has raised these concerns with you at this time in order to provide the Postal Service an opportunity either to correct any misunderstanding we may have of the terms, formal or informal, under which the E-COM system is being offered for sale or to revise those terms should our understanding be correct. The Department continues to believe that sale of the E-COM system is consistent with the public interest and the policies of the Postal Reorganization Act. We remain hopeful that the system can be divested by the Postal Service in a manner which avoids any necessity of resolving the legal issues addressed in this letter.

Should you desire to discuss this matter, please contact the undersigned or Barry Grossman, Chief, Special Regulated Industries Section, Antitrust Division, at (202) 724-6693.

Sincerely,

Charles F. Rule
Deputy Assistant Attorney General
Antitrust Division

UNITED STATES POSTAL SERVICE
Law Department
475 L'Enfant Plaza, SW
Washington, DC 20260-1100

February 14, 1985

Charles F. Rule
Deputy Assistant Attorney General
Antitrust Division
Department of Justice
Washington, D.C. 20530-0001

Dear Mr. Rule:

I have been asked to respond to your letter of January 25, 1985, addressed to the Postmaster General, in which you express several concerns about the proposed sale or lease of the Postal Service's E-COM equipment. Your letter seems to proceed from two related points: an anonymous allegation that some sort of "informal" guarantee has been given potential E-COM bidders regarding time of entry into the mailstream, and information that other firms will have to deposit their mail earlier to receive equivalent service. The first is not correct so far as we can determine, and the second appears to be based on a somewhat simplistic misunderstanding of how we process mail.

In order to ensure that things are open and above board, we are sharing your letter and this response with each of the current E-COM offerors as well as with Postal Service employees engaged in discussions with these offerors. Moreover, because of the importance of confidentiality of negotiations in reaching an agreement that will best serve the public interest, I would appreciate your letting me know who made these allegations so that we can determine whether it is a potential buyer or lessee or some other party seeking improperly to influence the conduct of the divestiture negotiations.

Judging from your letter, there may be some confusion about how the Postal Service processes mail. In the first instance, as a practical matter, all mail enters the mailstream at the time it is received by the Postal Service. Thus, for example, mail deposited at 10:00 p.m. enters the mailstream that same day. For internal operational and quality control reasons, the Postal Service has set one-, two-, and three-day delivery goals for First-Class Mail. Other classes of mail have different delivery goals. The applicable delivery day varies by the mail's origin and destination and is based upon a number of factors, including distance to be transported, available means of transportation, and the amount of handling and processing required.

In order to calculate the target delivery day, the Postal Service, on a local basis, establishes designated hours by which mail is to be deposited. These "cut-off" times, which are advisory in nature, and are usually set at the end of the normal business day, are designed to give the Postal Service a reasonable time to process and transport all the mail to meet the designated day of delivery. These "cut-offs" can also vary according to the method of deposit (e.g., in a street collection box versus at a post office loading dock) and the facility of deposit (e.g., a suburban associate office versus the management sectional center).

These "cut-off" times and "service standards" are principally for the internal use of the Postal Service in its efforts to ensure prompt delivery of the mail. Except for the Express Mail service money-back guarantee, the Postal Service does not offer either formal or "informal" mail processing or delivery guarantees for any of its services, including the current E-COM service. The Postal Service does inform mailers of these "cut-off" times and delivery goals so that they can have some basis to judge when best to deposit mail in order to receive the delivery service they desire. I am sure you have seen signs in post offices or on collection boxes explaining this system.

Whoever may have spoken to you may have been confused by the separate "cut-off" times that currently apply to E-COM service. Because of E-COM service's electronic input, equipment location, and ease of merging with mail processing operations, the Postal Service has considered 12:00 midnight to be the "cut-off" time for applying its two-day service standard for E-COM service. That "cut-off" time refers to the time the Postal Service receives the mailer's electronic input at an E-COM serving post office. However, when E-COM service is terminated as a postal service and its mail classification eliminated at the time of divestiture, a separate Postal Service cut-off time and service standard for the mail then produced by the E-COM system will not be appropriate because the Postal Service will no longer control or determine the time of electronic input or processing of messages.

It is important to remember that the Postal Service's time and delivery day standards are only general guidelines on how we will deliver mail. The specific manner in which a particular piece of mail is actually handled is determined by a much more numerous and varied list of factors. Both the guidelines and the specific mail processing applied to individual mail pieces are the result of a balancing of the need to provide prompt and reliable services with the need to control costs. Indeed, the need to control costs is a critical factor which often limits the time of performance of operations such as bulk mail acceptance and verification, and limits the number and timing of transportation runs. Two other important factors are the level of mail sortation (e.g., whether an individual piece sortation must be performed or whether a simple cross-dock transfer of mail sacks is all that is needed before mail is ready to be placed on an outgoing truck) and the volume of mail to be handled (e.g., moving a truckload of mail sorted to a single five-digit ZIP Code delivery area to the area in the postal facility where that mail will be sorted to carrier routes versus carrying a small amount of unsorted mail to the facing-cancelling operation prior to the beginning of sortation).

For these reasons, and others, the actual treatment received by any particular customer's mail can vary greatly. The Postal Service tries to work with all mailers to provide them with the best and most responsive services we can while keeping our costs down. We work with mailers to accommodate reasonable requests for particular service where we can. For example, we often work with volume mailers to coordinate our work schedules with their acceptance, processing and delivery needs. The Postal Service has in the past and will in the future hold itself open to work with mailers where such efforts can result in improved service without jeopardizing efficiency and productivity.

Given this background, I hope you see that the manner in which we handle any particular mail is governed by a complex set of factors that can vary from post office to post office and from one day to the next. In this context, the hard-copy mail that is the product of the current E-COM operation (which we assume will continue to be produced after divestiture) is relatively easy for us to process quickly and efficiently. E-COM letters are produced inside serving post offices in a form that meshes cleanly with our hard-copy mail processing operations. Additionally, these letters do not need to go through the same acceptance, verification and mail handling procedures as other First-Class Mail. Therefore, E-COM messages can be merged into our mail processing operations at a later time in the day than a lot of other First-Class Mail and still be processed in time to meet the dispatch time of the applicable outgoing transportation. However, depending upon volume and degree of preparation and presortation, other First-Class Mail may receive even quicker handling. For example, a truckload of mail sorted by the mailer to a specific five-digit ZIP Code area may only need to be transferred across the loading dock from the mailer's truck to the applicable outgoing postal vehicle. In that case, we could arrange with the mailer to have that mail brought to the post office at an even later time than it would be necessary to receive the E-COM messages that are addressed for delivery in the same area.

I would also note that the E-COM buyer or lessee and other First-Class mailers would not be similarly situated. The E-COM buyer or lessee would be paying the Postal Service for the space, utilities, and labor which make it possible efficiently to merge E-COM messages with mail processing operations at all times of the day. Once merged into regular mail processing operations, letters produced by the E-COM system follow the same mail flow as other First-Class letters. It would not be practical to input the mail of other First-Class mailers in the same manner as E-COM mail, but neither would those mailers pay the space, utilities, and labor expenses that make processing at a wider range of times possible. The Postal Service has previously stated, and I reiterate here, that we are willing to make similar arrangements with other mailers on similar terms consistent with the operational requirements and space available at the desired postal location. Accordingly, there seems to be no basis for any claim of "undue" or "unreasonable" discrimination, as those terms are used in our Act.

Your speculation that the Postal Service might attempt to use its alleged "monopoly" over mail delivery to gain a competitive advantage for the buyer or lessee of the E-COM system is not sufficiently clear for me to respond to it. For example, it is not clear how you think the Postal Service might use its alleged "monopoly over mail delivery" to gain an advantage for the buyer or lessee. Nonetheless, I can provide you the following advice on how the Private Express Statutes would apply in an E-COM-like situation. The Statutes prohibit the private carriage of "letters" unless postage is affixed or the carriage comes within either a statutory exception or an administrative suspension. However, the Statutes do not apply to the processing or transmission of messages in electronic form.

We appreciate you taking the time to share the allegations you heard, and the initial concerns those allegations raised. We also thank you for the support you have given to our efforts to terminate E-COM service as a postal service and to promptly and cleanly transfer the E-COM system to a private purchaser. If you have any further questions concerning these matters, please let me know.

Grayson M. Poate
Grayson M. Poate.
Assistant General Counsel
Classification Division
Office of Rate and
Classification Law

ITT Communications and
Information Services, Inc.

100 Plaza Drive
Secaucus, N.J. 07096
Telephone (201) 330-5000

January 4, 1984

Mr. William F. Bolger
Postmaster General
Washington, D. C. 20260

Dear Mr. Bolger:

This is a follow-up to recent meetings between my staff and Postal personnel concerning ITT Communications Services, Inc. (ITT CSI) development of electronic mail services. Attached is a summary of services ITT CSI would like to enter into in 1984. They combine the communications capability of ITT CSI with the delivery capability of the Postal Service. They include three basic services:

1. ITT FAXPAK interconnection with the USPS INTELPOST service.
2. ITT Speedmail interconnection with E-COM service.
3. ITT Facsimile Mail service.

The first service requires no special agreement and can begin in early 1984. The second service is scheduled to begin in March of 1984. We propose that the Postal Service offer, in addition to regular E-COM service, a special delivery service that would provide same-day service in the metropolitan areas where the 25 E-COM serving post offices are located. The third service will require an agreement between ITT CSI and the Postal Service for a facsimile mail service that would provide same day delivery service in major metropolitan areas and next day delivery service nationwide. ITT CSI is in the process of preparing a business case for entering into Facsimile Mail service. Assuming a positive decision, ITT CSI would be prepared to negotiate an agreement with the Postal Service on, or about, February 1, 1984. Facsimile Mail Service could be operational during the second half of 1984.

In none of the above is ITT CSI asking for an exclusive arrangement with the Postal Service. We recognize that a new market opportunity exists for the communications industry and that the Postal Service is in a unique position of having the best distribution system in the United States and that the other companies may also want to take advantage of your delivery capability.

ITT CSI appreciates the quick and positive response we have had from the Postal Service over the last few weeks in discussing these services and the information you have shared with us. We suggest as next steps, assuming you agree, that preliminary talks begin on the structure and content of an agreement between ITT CSI and the Postal Service.

We at ITT CSI look forward to working with the Postal Service on the development of E-COM and other electronic mail services.

Sincerely,

William J. Lifka
Group General Manager
Communications

Attachments

ITT ELECTRONIC MAIL

ITT Communications Services, Inc. (ITT CSI) proposes to develop a package of electronic mail services that would utilize the communications capability of ITT CSI and the delivery capability of the Postal Service. This package would enable customers to select from a full range of services depending on their mailing requirements. These services can be developed through interconnection with the existing E-COM network and implementation of a complmentary facsimile mail network. The objective is to provide same day service in major metropolitan areas (141 cities) and next day delivery of messages throughout the United States. In addition, interconnection of ITT FAXPAK service with the USPS INTELPOST service can begin in early 1984.

ITT CSI recognizes that a large portion of first class mail will eventually be converted to electronic input with hard copy delivery through the Postal Service. This, according to most studies, in somewhere between 25 billion and 40 billion pieces a year. ITT CSI believes that E-COM is a good first step toward conversion of the input of messages from hard copy to electronic. E-COM has opened a new market opportunity for the communications industry. It is our intention to capitalize on this opportunity by selling the benefits of ITT CSI electronic input and Postal Service delivery. We also recognize that the communications industry will, by providing electronic message input, save the Postal Service the costs of the initial collection, processing and transportation of messages. We expect, because of this savings, that postal rates for providing delivery service will be kept fair and reasonable. Significant conversion will occur only if the rates are competitive with existing first class mail.

The ITT CSI package of services will include several options depending on customer application and requirement for speed of delivery. The following is a brief look at services either in development, or under consideration.

ITT FAXPAK Interconnection with USPS INTELPOST

FAXPAK facsimile service is a nationwide transmission service offered by ITT CSI. It is designed specifically to make facsimile transmission easier, faster and more economical. 16,000 customers are registered to use FAXPAK. It is our intention to offer and promote FAXPAK interconnection with INTELPOST service. The promotion campaign is scheduled to begin in early 1984.

ITT Speedmail Interconnection with USPS E-COM

ITT CSI is in the process of developing an interface with E-COM that will enable any customer with a communicating word terminal to send messages through ITT CSI to the E-COM serving post offices. Service will begin in March of 1984. Zip code areas have been analyzed so that next day service and two-day delivery areas are identified for customer use. ITT CSI, in addition to offering one-day and two-day service for E-COM messages would also propose that the Postal Service develop a capability that would provide for same day delivery of E-COM messages. This could be accomplished by utilizing the special delivery service currently offered by the Postal Service and building an identification process into the E-COM paper-handling equipment that would sort out special delivery messages. This same day service could be made available in the metropolitan areas of the 25 E-COM serving post offices.

ITT Facsimile Mail Service

This service would involve an agreement between ITT CSI and the Postal Service that would enable our customers with facsimile or data terminals to send messages to post offices equipped with ITT CSI-provided facsimile machines. Message processing in the post offices, and delivery, would be handled by the Postal Service. The objective is to provide a nationwide next day delivery service with same day service provided in the 141 metropolitan areas of post offices equipped with facsimile machines. The ITT CSI target for initiating this service is the second half of 1984.

ITT CSI believes that the services outlined above make sense not only for our company, but also for the Postal Service, the general public and the Communications industry. In none of the above does ITT CSI expect an exclusive arrangement with the Postal Service. We only want to take advantage of the most cost-effective and widespread distribution network in the United States.

APPENDIX 4.—POSTAL RATE COMMISSION CORRESPONDENCE

POSTAL RATE COMMISSION
Washington, D.C. 20268

June 6, 1985

Mr. Edward Gleiman
Counsel to Government Information,
 Justice, and Agriculture Subcommittee
Committee on Government Operations
B-349-C Rayburn House Office Building
Washington, D.C. 20515

Dear ~~Mr.~~ ED. Gleiman:

As you requested we have used our E-COM cost model developed for R83-1 (the E-COM rate case) to project E-COM's profit/loss picture for FY 85 and for FY 82 - FY 85 cumulatively.[1]

The cost programs were developed to consider yearly -- not monthly or accounting period -- data. Therefore, the FY 85 volumes were developed applying the same ratio of FY 84 volumes to the volume for the equivalent FY 84 period. Based on a volume of 16,525,078 through May 10, 1985, the FY 85 volume is estimated to be 28.6 million.

In its Decision upon Reconsideration the Commission recommended rates considerably higher than the existing rate of $0.26 for the first page and $0.05 for a second page of an E-COM message in order to recover the E-COM costs. As the actual volumes are only 60.9 percent of those used by the Commission, one would expect that the E-COM service is being provided at a substantial loss. The preliminary FY 85 analysis based upon actual volumes through May 10, 1985, demonstrates that the E-COM service at the present rate structure and volume growth continue to build operating losses.

The FY 85 analysis was performed based upon actual volumes and using the same assumptions about personnel, equipment, maintenance, and other costs as used in prior analyses including inflation factors and depreciation schedules. Detailed information was not available to reflect the operational adjustments the Service may have made because volumes were significantly different than projected. Therefore, the FY 85 analysis assumed that the Service would attempt to maintain its stated service objectives thus maintaining the personnel and equipment (with maintenance) levels as in FY 84.

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[1] These programs were created in the process of deciding Docket No. R83-1, and are fully documented in Commission workpapers available in the PRC Docket Room.

However, the FY 85 analysis eliminated the following expenditures in FY 85

1. Facility modifications	$ 800,000
2. Marketing	4,200,000
3. Training	535,043

and did not include any costs or revenues from reply envelope service.

Table 1 shows the accumulated revenues and costs from FY 82 to FY 85 based upon actual volumes. The "second page" revenues were developed using the same second page to first page ratio as used in prior analyses. The fees are the same as estimated in the Decision. As shown on Table 1 it is estimated that the Service has approximately a net revenue loss per message of $0.57 for FY 85 assuming that the Service did not take steps to adjust personnel, equipment, and other costs to reflect the lower volumes.

Table 2 shows the estimated undepreciated costs at the end of FY 85.

Each month of continued operation in 1985 (using the abovementioned assumptions) results in an additional loss of $1.37 million (including $450,000 depreciation). Please let me know if we can be of any further assistance.

Sincerely,

Robert Cohen

Robert Cohen
Director, Technical
Analysis & Planning

Enclosures

TABLE 1

SUMMARY E-COM REVENUES AND COSTS
FY 82 TO FY 85

		FY 82 - FY 84	FY 85	TOTAL
1.	VOLUME (000,000)	41.2	28.6	69.8
2.	REVENUES			
	a. First Page	$ 10,714,572	$ 7,428,200	$ 18,142,772
	b. Second Page	265,824	285,700	551,524
	c. Fees	330,000	320,000	650,000
	TOTAL	$ 11,310,396	$ 8,033,900	$ 19,344,296
3.	COSTS			
	a. Equipment	$ 10,585,802	$ 3,849,383	$ 14,435,185
	b. Facilities	2,753,700	884,642	3,638,342
	c. Tech Support	1,744,194	872,097	2,616,291
	d. Maintenance	8,414,236	1,340,043	9,754,279
	e. Consumables	1,795,844	1,058,664	2,854,508
	f. Telecommunications	1,800,933	620,192	2,421,125
	g. Training	2,271,012	314,286	2,585,298
	h. Utilities	989,493	396,042	1,385,535
	i. Rent	38,359	14,391	52,750
	j. Marketing	5,491,000	0	5,491,000
	k. Labor	25,586,705	10,243,327	35,830,032
	l. Mailstream	3,218,489	4,856,900	8,075,389
	m. ORC Study	433,000		433,000
	TOTAL COSTS	$ 65,122,770	$ 24,449,966	$ 89,572,736
4.	NET REVENUE	$(53,812,374)	$(16,416,066)	$(70,228,440)
5.	NET LOSS/PIECE	$1.31	$ .57	$1.01
6.	UNDEPRECIATED COSTS AT END OF FY 85 (see Table 2)			$ 20,227,610

June 6, 1985

TABLE 2

ESTIMATED UNDEPRECIATED COSTS AT END OF FY 85

Equipment	$12,510,494
Facilities	5,285,871
Technical Support	1,488,389
Training	942,857
Total	$20,227,610

June 6, 1985

UNITED STATES POSTAL SERVICE
475 L'Enfant Plaza, SW
Washington, DC 20260

RECEIVED
JUN 21 3 30 PM '85
POSTAL [illegible]
OFFICE OF THE SECRETARY

June 21, 1985

Janet Steiger, Chairman
Postal Rate Commission
1333 H Street, N.W., Suite 300
Washington, D.C. 20268-0001

Dear Chairman Steiger:

It has come to our attention that the Secretary for the Board of Governors informed the Board that members of the Commission's staff had informally suggested that the change in Postal Service plans for the E-COM system, announced by Postmaster General Carlin on June 4, 1985, would not require resubmission by the Postal Service of its E-COM declassification request for further Commission consideration. The reported statements were to the effect that the change, from the planned sale to a private sector company which would continue to offer an electronic mail service to the public to the shutdown now underway, did not present any obstacle to the Governors proceeding to approve the recommended decision issued by the Commission in Docket No. MC84-2 on December 21, 1984.

It would be helpful in preparing to advise the Board and the Governors on this matter to know if the Commission has considered this question, and if the view expressed by the Commission's staff members is consistent with the view held by yourself and the other Commissioners. Therefore, I am writing to you to request that you share your views with us. A response well in advance of the July meeting of the Board of Governors would be most appreciated.

Yours truly,

Grayson M. Poats

Grayson M. Poats
Assistant General Counsel
Classification Division
Office of Rate and Classification law

cc: All parties in MC84-2

ORDER NO. 613

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Before Commissioners: Janet D. Steiger, Chairman;
Henry R. Folsom, Vice-Chairman;
John W. Crutcher; James H. Duffy;
Bonnie Guiton

Mail Classification Schedule, 1984)
E-COM Service) Docket No. MC84-2

ORDER ON MOTION FOR CLARIFICATION OF OPINION AND RECOMMENDED DECISION

(Issued June 26, 1985)

On June 21, 1985, we received a letter from the Assistant General Counsel, Classification Division, United States Postal Service, seeking information on whether the Opinion and Recommended Decision we issued in this Docket on December 21, 1984, would be a bar to the Service's contemplated change in plan for its E-COM system. The change, according to the letter, is

> . . . from the planned sale to a private sector company which would continue to offer an electronic mail service to the public to the shutdown now underway . . . .

The letter states that copies have been sent to all parties in this Docket, and requests that we respond before the Governors' July meeting.

We will treat the letter as a motion for clarification of the Opinion and Recommended Decision issued last December, and dispose of it in this Order.[1]

Background. The Service's request which began Docket MC84-2 was filed July 6, 1984, pursuant to Board of Governors Resolution No. 84-5; this resolution, as summarized in the Stipulation and Agreement in this case, was to

> . . . dispose of the existing E-COM equipment by sale or lease to the private sector . . . . [and] to file a request for a recommended decision with the Commission to remove E-COM service as a subclass of mail from the Domestic Mail Classification Schedule.

PRC Op. MC84-2, Attachment A, at 3. The case was settled, with one dissenting party (American Postal Workers Union) on essentially that basis. The Commission considered the Stipulation and Agreement as a disposition on the merits presented in the form of a nonunanimous settlement.[2] Finding that APWU's arguments required neither the holding of evidentiary hearings nor rejection of the settlement, we approved it and recommended to the Governors that E-COM, and its associated rate schedules, be deleted from the DMCS.

Evidently the need for clarification arises because, while the Docket MC84-2 proceeding was based on a request that contemplated disposal of E-COM as a "going concern" to a private operator, the Service's current preference is simply to liquidate it.

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[1] It follows that nothing in this Order modifies the December 21 Opinion and Recommended Decision in any respect. Since the matter has been in the hands of the Governors since then, we could not make any substantive change. Rather, we are here issuing a declaratory order to remove uncertainty [5 U.S.C. § 554(e)].

[2] PRC Op. MC84-2, at ¶¶0008-0011; Mobil Oil Corp. v. FPC, 417 U.S. 283, 313-314 (1974); Pennsylvania Gas & Water Co. v. FPC, 463 F.2d 1242, 1247 (D.C. Cir. 1972); Michigan Consolidated Gas Co. v. FPC, 283 F.2d 204 (D.C. Cir.), *certiorari denied sub nom*. Panhandle Eastern Pipeline Co. v. Michigan Consolidated Gas Co., 364 U.S. 913 (1960).

Discussion. The Service is quite right that the meaning of a Recommended Decision must be determined by means of the Commission's Opinion; and in this case the Opinion does refer to the Governors' original intention of transferring E-COM as an operable unit to a private operator. PRC Op. MC84-2, at ¶¶ 0001, 0042-0044. As a general principle, the classification language recommended by the Commission in a § 3623 decision must be read in light of the request (or Commission order instituting sua sponte proceedings), in order that it not be later construed in ways that the evidence of record and the Commission's reasoning would not support. This does not mean, however, that the decision in this Docket will not support the Service's current plans for the disposition of E-COM.

While our Opinion naturally reflected the MC84-2 Request and the underlying Board Resolution, it does not depend for its validity on the assumption that E-COM would be turned over in functioning condition to a private operator. The issue before us was not whether this should be done, but whether E-COM should be removed from the DMCS as a subclass of First Class Mail. Either sale as a unit to a new operator or liquidation of the system would be consistent with such removal. Indeed, a key part of our discussion of the then-contemplated sale of E-COM as a system makes this clear. APWU had argued that before we could approve the Stipulation and Agreement calling for the "declassification" of E-COM, we would have to know the terms of the contemplated sale. We said (PRC Op. MC84-2 at ¶0023-0024):

> [0023] We do not agree that we must know what the contract of sale will provide before we can consider Postal Service's request. Whether the price that the Postal Service can negotiate for E-COM equipment is high or low, and whether or not a purchaser chooses to utilize Postal Service personnel or not, are not factors which are material to our classification decision.
>
> [0024] Our jurisdiction is to recommend classifications of mail. If we were to determine that E-COM should continue as a postal service, we should make that recommendation, together with our reasons for making it, available to the Governors before a contract of sale is arrived at. Similarly, if we were to find that some aspect of

> E-COM should be preserved, our analysis should be provided to the Governors as soon as possible. . . . . Our function is to consider whether E-COM should continue to be offered as a postal service, and we can fulfill that function regardless of the terms of the contract of sale.

Our adoption of the Stipulation and Agreement was consistent with this approach. It called for the removal of the E-COM subclass from the DMCS, but did not call upon the Commission to recommend any particular disposition of the system equipment.[3] The only opponent of the Stipulation and Agreement opposed it, in part, because it believed the signatories had not attended sufficiently to how the E-COM system would be disposed of.

Finally, we must take note of the peculiar nature of this proceeding, aimed solely at the discontinuance of this subclass of mail. The complete removal of this subclass from the DMCS is unambiguous in its consequences. In fact, the specific method of disposition of E-COM equipment was not material to our recommended decision. The collateral intentions of postal management with respect to the disposition of associated facilities may be carried out or not, without changing the significance of this declassification.[4] (In a case where we had recommended creation of a new class, relying on the scope and nature of the original request, and material changes in the facilities to be provided for it were made, the issue might well be a different one.)

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[3] The only circumstance that might suggest the contrary is the signatories' language in paragraph 2 of the Stipulation and Agreement:

> 2. Based on the foregoing, the parties agree that the E-COM subclass should be deleted from the Domestic Mail Classification Schedule. [Emphasis added.]

Part of "the foregoing" -- i.e., paragraph 1 of the document -- is the description quoted earlier of Board of Governors' Resolution No. 84-5. However, it appears that the signatories did not mean to condition their agreement on the continued viability of the Board's then-current plan to sell or lease E-COM as an operating unit. Paragraph 1 of the Stipulation and Agreement is a comprehensive summary of E-COM's history since 1980, covering two and a half pages. Nothing in the settlement language suggests that the description of how the Board wanted to dispose of E-COM was included for any reason other than historical completeness.

Conclusion. The Opinion and Recommended Decision issued in this Docket on December 21, 1984, called for deletion of the E-COM subclass. The current plan of the Service to liquidate the facilities associated with E-COM rather than transferring them to private operation would still be compatible with our recommendations. In our opinion, the Governors could adopt our December 21 Recommended Decision and direct the Service to proceed with that current plan, without any inconsistency.

By the Commission.

[S E A L]

Charles L. Clapp

Charles L. Clapp
Secretary

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[4] We distinguish the hypothetically possible case wherein management explicitly states the intention to introduce a new subclass in substitution for the one proposed to be dropped, but never files a request to do so. Of course in a case like that, it is likely that our Opinion would unmistakably set forth the prospect of the new subclass as justification for abandoning the old one. No such representation was made here; and in fact, as we pointed out (PRC Op. MC84-2, ¶ 0047), "alternative means exist for preparation of messages currently sent as E-COM, and . . . First-Class service will continue to be available for delivery of those messages . . . ."

APPENDIX 5.—LETTER FROM CHAIRMAN GLENN ENGLISH TO POSTMASTER GENERAL PAUL N. CARLIN, DATED NOVEMBER 12, 1985, REQUESTING DOCUMENTS ON INTELPOST, WITH REPLY DATED DECEMBER 18, 1985

GLENN ENGLISH, OKLAHOMA, CHAIRMAN

GERALD D. KLECZKA, WISCONSIN
STEPHEN L. NEAL, NORTH CAROLINA
ROBERT E. WISE, JR., WEST VIRGINIA
EDOLPHUS TOWNS, NEW YORK
JOHN M. SPRATT, JR., SOUTH CAROLINA

THOMAS N. KINDNESS, OHIO
JIM LIGHTFOOT, IOWA
JOSEPH J. DIOGUARDI, NEW YORK
JOHN R. MILLER, WASHINGTON

(202) 225-3741

NINETY-NINTH CONGRESS
Congress of the United States
House of Representatives
GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
B-349-C Rayburn House Office Building
Washington, DC 20515

November 12, 1985

The Honorable Paul N. Carlin
Postmaster General
U. S. Postal Service
475 L'Enfant Plaza
Washington, D. C. 20260

Dear Mr. Postmaster General:

In his recent presentation to the Board of Governors, Mr. Herbert Schiller made reference to several matters of interest to the subcommittee in connection with its ongoing investigation of INTELPOST.

Please provide the following documents to the subcommittee:

- The Partridge Group Study, including materials on the "collateral agent strategy";
- A list of all parties who had an agreement with, have an agreement with, or have expressed interest in entering into an agreement with, the Postal Service acting as a collateral agent for INTELPOST;
- Copies of all decision documents associated with the October 1, 1985 transfer of INTELPOST responsibility to the Customer Services Department;
- Copies of all internal operating instructions issued for INTELPOST during the last six months;
- An explanation of just how advertising costs for FY 85 were reduced from the projected level of $539,000 to $425,000; and,

- Any studies, including market sensitivity analyses, associated with Mr. Schiller's recommendations to enhance revenues through rate changes.

I would appreciate your prompt and personal attention to this request.

Sincerely,

Glenn English
Chairman

THE POSTMASTER GENERAL
Washington, DC 20260-0010

December 18, 1985

Honorable Glenn English
Chairman, Subcommittee on Government
  Information, Justice, and Agriculture
Committee on Government Operations
House of Representatives
Washington, D.C. 20515-0001

Dear Congressman English:

This is in response to your letter of November 12, in which you requested several documents related to the INTELPOST program.

Attachment A contains material turned over to us by the Partridge Group, related to their recommendation that USPS pursue a "collateral agent" marketing strategy. Attachment B is a summary of their contacts with firms which had expressed interest in offering INTELPOST to their customers. As a point of clarification, there are no formal agreements established with such "agents."

Attachment C contains copies of the two decision documents related to the transfer of program management responsibility to the Customer Services Department. Attachment D is the latest internal operating instruction, published in the Postal Bulletin of October 10, 1985.

Regarding your question about the reduction of advertising expenses, we simply cancelled several planned activities such as the development of new promotional materials, the purchase of direct mail lists, and a planned awareness generating campaign in four new sites. With respect to your final question, the rate change recommendations mentioned by Mr. Schiller were based on operating costs associated with the dial-up network implemented in October 1984. The differences in telecommunication costs lend themselves to a tiered rate based on destination.

I hope this information answers your questions satisfactorily.

Sincerely,

Paul N. Carlin

Paul N. Carlin

Attachments

ATTACHMENT A

INTELPOST PROJECT

UPDATE

DRAFT PRODUCT AND MARKET REVIEW

JANUARY 18, 1985

THE PARTRIDGE GROUP

THE PURPOSE OF TODAY'S MEETING IS TO REVIEW:

I. EFFORTS TO DATE - PRODUCT AND MARKET REVIEW

II. PRELIMINARY DETERMINATIONS

III. EFFORTS GOING FORWARD

I. EFFORTS TO DATE

1. PRODUCT REVIEW
    - MARKETING: PRODUCT POSITIONING
        - PRICING
        - PROMOTION AND MEDIA ACTIVITIES
    - OPERATIONS
    - FINANCIAL: VOLUME HISTORY
        - VOLUME PROJECTIONS
        - COST ANALYSIS
2. MARKET REVIEW
    - CUSTOMER INTERVIEWS
    - COMPETITIVE ANALYSIS

II. PRELIMINARY DETERMINATIONS

1. TWO MARKET POSITIONS FOR INTELPOST TO PURSUE: RETAIL AND WHOLESALE

2. IN THE RETAIL MARKET, INTELPOST'S COMPETITIVE STRENGTH IS PRIMARILY PRICE FOR THE DELIVERY OF SMALL DOCUMENTS.

3. TO ADD TO VOLUME QUICKLY, THE BEST STRATEGY IS TO ESTABLISH INTELPOST AS A WHOLESALER.

4. THE NATURE OF CURRENT INTELPOST OPERATIONS MAY JEOPARDIZE SUCCESS OF WHOLESALE INTELPOST BUSINESS.

II. PRELIMINARY DETERMINATIONS (Continued)

1. TWO MARKET POSITIONS FOR INTELPOST TO PURSUE

MARKETS	STRATEGY
1. RETAIL	DEVELOP AND IMPLEMENT MARKET NICHE APPROACH TO REACH COMMERCIAL END-USER MARKETS
2. WHOLESALE	DEVELOP BUSINESS PLAN TO ATTRACT COLLATERAL AGENT RELATIONSHIPS AND NEGOTIATE AGREEMENTS WITH LIKELY AGENT PROSPECTS: - COURIER SERVICES - FAX MANUFACTURERS - FAX BUREAUS - PRIVATE POST OFFICES - COPY CENTERS

2. IN THE RETAIL MARKET, INTELPOST'S COMPETITIVE STRENGTH IS PRIMARILY PRICE FOR THE DELIVERY OF SMALL DOCUMENTS.

STRENGTHS

- PRICE FOR SMALL DOCUMENTS
- COST (?)
  - . Customer needs no capital investment.
- SPEED (?)
  - .Degrading due to slow access from customer to machines
- GRAPHIC CAPABILITIES

WEAKNESSES

- CONVENIENCE IS LOW:
  - .No pick up; Delivery may be slow
  - .Source for Customer Information non-existent
  - .Current User Guide difficult to understand.
  - .Customer interface at window acceptance sites is poor
- HIGH USERS HAVE SUBSTITUTES
- CONFIDENTIALITY IS PERCEIVED AS LESS THAN COURIERS
- NETWORK BREADTH (U.S. & INT'L) IS LIMITED
- RELIABILITY PERCEIVED LOW
  - .No control of delivery at other end

COMPETITIVE REVIEW

COMPETITIVE SERVICES	INTELPOST	OVERNIGHT COURIERS	FACSIMILE SERVICES	TELEX SERVICES	PURE E-MAIL VENDORS	HYBRID E-MAIL
COMPETITIVE STRENGTHS						
QUALITY OF IMAGE TRANSMISSION	M	HI	M	L	HI	HI
GRAPHICS CAPABILITIES	HI	HI	HI	L	L	L
LOW CUSTOMER INVESTMENT REQUIRED	HI	HI	HI	L	L	HI
CONFIDENTIALITY	M	HI	M	HI	HI	M
SPEED	HI	L	HI	HI	HI	M
CONTROL OF DOCUMENT (RELIABILITY)	M	HI	M	HI	HI	HI
PICK-UP CONVENIENCE	L	HI	L	HI	HI	HI
DELIVERY CONVENIENCE	HI	HI	HI	HI	HI	HI
BREADTH OF INT'l NETWORK	M	HI	L	HI	L	M
BREADTH OF DOMESTIC NETWORK	L	HI	L	HI	L	L
RELATIONSHIPS WITH PTT's	HI	L	L	L	L	L
CAPITAL RESOURCES	HI	M	L	M	L	L
EXAMPLE COMPETITORS		-DHL -TNT -FED EXP	-NETWORK FAX -THE BEAM	-WUI -ITT -RCA	-EASYLINK -MCI MAIL	-MCI/ PURO-LATER -ZAP MAIL

COMPETITIVE REVIEW

COMPETITIVE FEATURES / COMPETITIVE SERVICES	INTELPOST	INTERNATIONAL COURIER SERVICES							
		DHL	TNT SKYPAK	FED EX	EMERY	AIR-BORNE	PUROLATOR	AIR COURIER INTL	USPS EXPRESS MAIL
Breadth of Network									
US Cities	7	(all)	20	(all)	(all)	(all)	(all)	(all)	(all)
Int'l Countries	15	143	78	83	63	122	143	140+	39
Price									
Range	$5/page	$31-34	$30-75	$29-38	$27-49	$65-95	$18.75-50	$30-65	$18-21
NY-London	"	31	30	29	27	65	18.75	30	19
LA-HK	"	38	37	36	30	65	33.75	65	20
Speed									
Range (days)	<1-2	1-5	1-6	1-5	1-5	2-5	1-5	1-3	2-7
NY-London (days)	<1-2	1	1	1	1	2	1	2	3
LA-HK	<1-2	2-3	2	2-3	2	3	2	3	4
Quality of Image	GroupIII FAX	orig	orig	orig	orig	orig	orig	orig	orig
Convenience									
Pick-up	na	yes	yes	yes	yes	yes	yes	yes	$5.60
Delivery	$5 for sp del	yes	yes	yes	yes	yes	yes	yes	yes
Confidentiality	not secure	sealed	sealed	sealed	sealed	sealed	sealed	sealed	sealed

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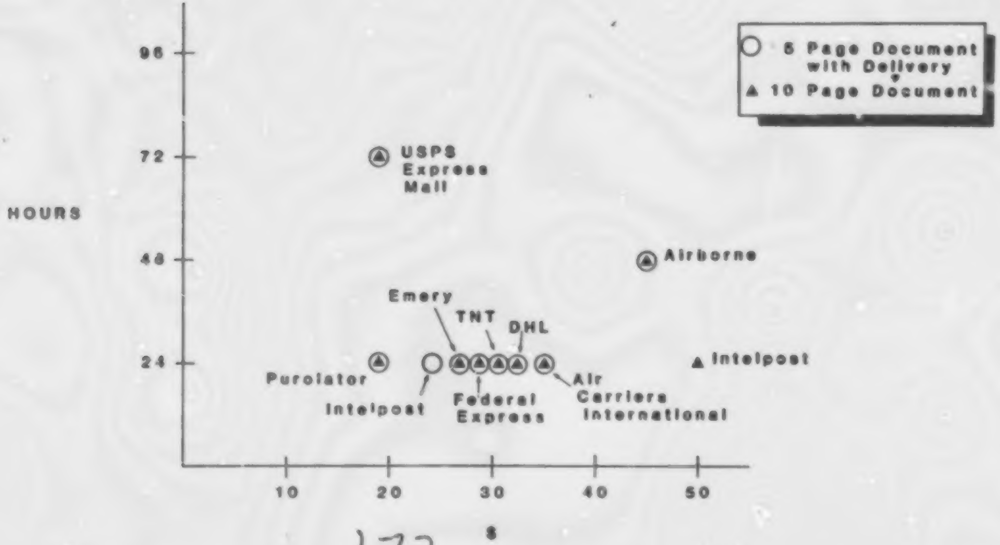
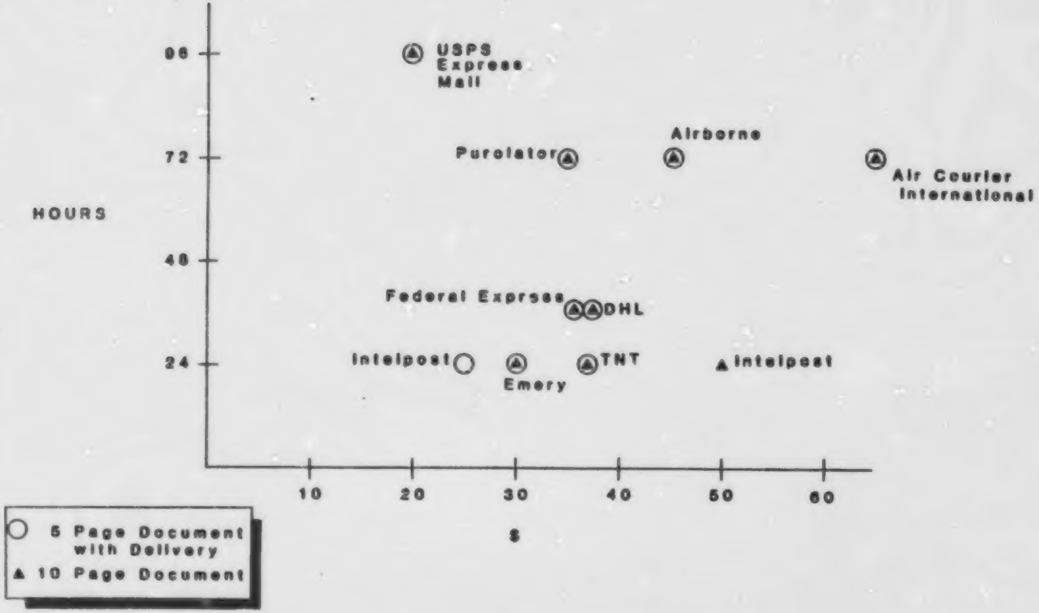
COMPARISON BETWEEN INTELPOST AND INTERNATIONAL COURIERS

New York - London



COMPARISON BETWEEN INTELPOST AND INTERNATIONAL COURIERS

Los Angeles - Hong Kong



INTELPOST IS PRICE COMPETITIVE ONLY FOR DOCUMENTS UNDER 5 PAGES IN LENGTH

TO COMPETE FOR LARGE DOCUMENTS INTELPOST WOULD HAVE TO CHARGE $1 PER PAGE OR LESS.

# OF PAGES DOCUMENT	AVERAGE PRICE INTERNATIONAL COURIERS (INCL. PICK-UP & DELIV.)	AVERAGE PRICE PER PAGE
100	$30.00	$ .30
25	$30.00	1.20
10	$30.00	3.00
6	$30.00	5.00
5	$30.00	6.00
4	$30.00	7.50

AS A WHOLESALER, INTELPOST'S MAJOR STRENGTH IS IN ITS RELATIONSHIPS WITH PTT'S AND ITS STRONG CAPITAL RESOURCES:

MAJOR STRENGTHS	MAJOR WEAKNESSES
- RELATIONSHIPS WITH PTT'S	CUSTOMER RELATIONSHIP:
- CAPITAL RESOURCES OF USPS	.No control of Documents
- SPEED	.No pick-up available
- CONVENIENCE OF DELIVERY OVERSEAS	.Small domestic network

3. TO ADD TO VOLUME QUICKLY WITH RESOURCES AVAILABLE, THE BEST STRATEGY IS TO ESTABLISH INTELPOST AS WHOLESALER, I.E.,

THINK OF CERTAIN COMPETITORS AS POTENTIAL CUSTOMERS

MARRY INTELPOST'S STRENGTHS TO ENTITIES WITH STRONG CUSTOMER RELATIONSHIPS

FOR THESE ENTITIES, THE ADVANTAGES OF A RELATIONSHIP WITH INTELPOST WOULD BE:

FACSIMILE MANUFACTURERS:	INTELPOST is an additional sales feature to help sell equipment. (Particularly with an "800" # Dial-in and USPS financing on equipment.)
LOCAL COURIERS:	INTELPOST is add-on business.
INTERNATIONAL COURIERS:	INTELPOST has valuable PTT relationships.
FAX BUREAUS:	INTELPOST can broaden the international network, and offers the important add-on of delivery at the overseas end.
PRIVATE POST OFFICES	INTELPOST is a new product line.

4. NATURE OF OPERATIONS MAY JEOPARDIZE SUCCESS OF "WHOLESALE" INTELPOST BUSINESS, E.G.:

- DIAL UP SYSTEM CAPACITY LOW
- DELIVERY SPEED IN NEW YORK IS SLOWER WITH REMOTE WINDOW ACCEPTANCE.
- ECOM PERSONNEL UNFAMILIARITY RESULTING IN MISTAKES
- NO CSR IS PREPARED TO SELL COLLATERAL/HIGH VOLUME CONTRACT

5. CURRENT DEGRADATION IN OPERATIONS SINCE OCTOBER 1ST REORGANIZATION MAY BE PUTTING CURRENT LEVEL OF RETAIL VOLUME IN JEOPARDY.

VOLUME DATA DOESN'T SHOW THIS

POSTAL FISCAL YEAR 1985

WEEK/MO	NYC	WAS	CHI	HOU	SFO	LOS	MIA	TOTAL ALL ORIGINAL CITIES	TOTAL ALL CITIES
1	154	85	21	33	20	24	3	313	340
2	178	3	2	51	53	18	0	287	297
3	160	28	14	20	231	17	9	453	479
4	180	19	21	23	20	29	7	263	299
	------	------	------	------	------	------	------	------	------
October	672	135	58	127	324	88	19	1316	1415
Avg Week	168.0	33.8	14.5	31.8	81.0	22.0	4.8	329.0	353.8
5	173	26	28	41	19	38	3	287	328
6	126	22	29	31	24	20	9	232	261
7	141	27	7	35	15	18	13	225	256
8	115	19	7	30	6	20	5	177	202
	------	------	------	------	------	------	------	------	------
November	555	94	71	137	64	96	30	921	1047
Avg Week	138.8	23.5	17.8	34.3	16.0	24.0	7.5	230.3	261.8
9	201	31	11	104	9	88	10	346	444
10	158	20	21	70	25	63	12	294	369
11	136	45	26	114	44	33	2	365	400
12	159	11	20	33	14	31	10	237	278
13	92	2	11	19	18	12	4	142	158
	------	------	------	------	------	------	------	------	------
December	746	99	89	340	110	227	38	1384	1649
Avg Week	149.2	19.8	17.8	68.0	22.0	45.4	7.6	276.8	329.8

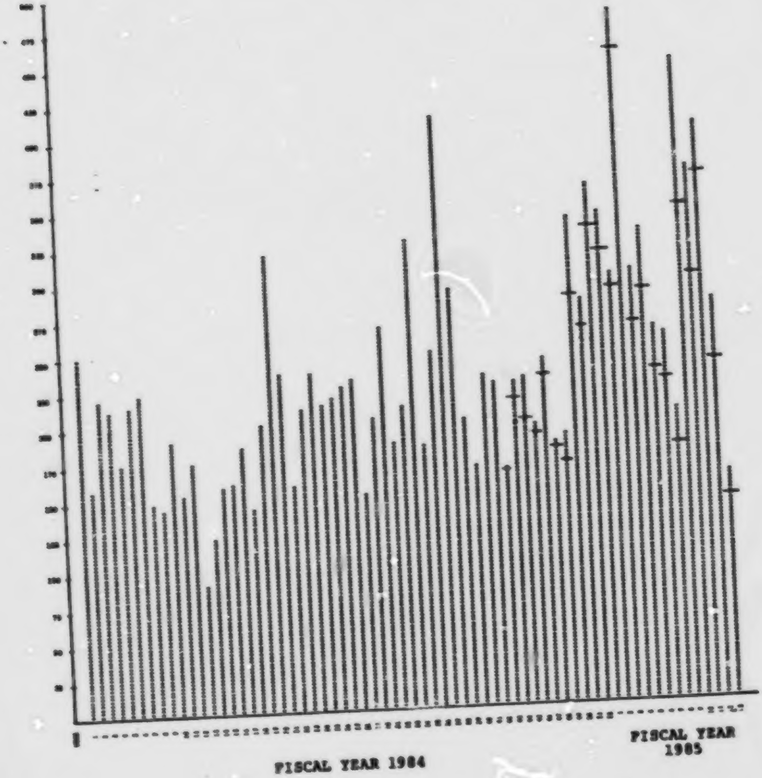
POSTAL FISCAL YEAR 1984

WEEK/MO	NYC	WAS	CHI	HOU	SFO	LOS	MIA	TOTAL ALL ORIGINAL CITIES	TOTAL ALL CITIES
1	92	138	11	19	7			267	267
2	56	35	11	26	9			137	137
3	79	94	22	1	24			220	220
4	125	36	5	14	34			214	214
	------	------	------	------	------			------	------
October	352	303	49	60	74			838	838
Avg Week	88.0	75.8	12.3	15.0	18.5			209.5	209.5
5	55	61	29	2	27			174	174
6	141	35	15	12	11			214	214
7	115	16	12	32	47			222	222
8	93	26	9	3	17			148	148
	------	------	------	------	------			------	------
November	404	138	65	49	102			758	758
Avg Week	101.0	34.5	16.3	12.3	25.5			189.5	189.5
9	71	33	11	17	31			163	163
10	121	30	14	12	12			189	189
11	102	17	9	13	11			152	152
12	89	50	3	12	22			176	176
13	73	9	3	0	4			89	89
	------	------	------	------	------			------	------
December	456	139	40	54	80			769	769
Avg Week	91.2	27.8	8.0	10.8	16.0			153.8	153.8
14	88	9	3	12	10			122	122
15	109	13	13	17	5			157	157
16	93	19	14	8	23			159	159
17	97	52	12	10	13			183	183
	------	------	------	------	------			------	------
January	381	92	42	47	61			623	623
Avg Week	95.3	23.0	10.5	11.8	15.3			155.8	155.8
18	68	22	8	2	42			142	142
19	99	70	12	3	15			199	199
20	143	53	9	14	99			318	318
21	138	70	8	8	10			234	234
	------	------	------	------	------			------	------
February	448	215	37	27	166			893	893
Avg Week	112.0	53.8	9.3	6.8	41.5			223.3	223.3
22	89	26	9	3	30			157	157
23	125	49	13	3	19			209	209
24	130	86	3	5	12			236	236
25	148	17	28	8	11			212	212
26	115	41	22	5	34			217	217
	------	------	------	------	------			------	------
March	607	219	75	24	106			1031	1031
Ave Week	121.4	43.8	15.0	4.8	21.2			206.2	206.2

POSTAL FISCAL YEAR 1984

WEEK/NO	NYC	WAS	CHI	HOU	SFO	LOS	MIA	TOTAL ALL ORIGINAL CITIES	TOTAL ALL CITIES
27	128	58	23	3	14			226	226
28	107	83	15	13	13			231	231
29	123	12	13	2	1			151	151
30	92	49	16	9	36			202	202
April	450	202	67	27	64			810	810
Avg Week	112.5	50.5	16.8	6.8	16.0			202.5	202.5
31	101	103	24	11	26			265	265
32	118	32	16	5	13			184	184
33	96	66	23	6	19			210	210
34	256	36	14	1	19			326	326
May	571	237	77	23	77			985	985
Avg Week	142.8	59.3	19.3	5.8	19.3			246.3	246.3
35	85	78	10	3	7			183	183
36	115	93	27	7	5			247	247
37	148	234	19	0	9			410	410
38	140	100	13	5	32			290	290
39	118	52	22	3	6			201	201
June	606	557	91	18	59			1331	1331
Avg Week	121.2	111.4	18.2	3.6	11.8			266.2	266.2
40	78	55	19	6	9			167	167
41	137	57	19	2	14			229	229
42	120	76	20	4	26			246	246
43	79	32	11	6	14	2		142	144
July	414	220	69	18	63	2		784	786
Avg Week	103.5	55.0	17.2	4.5	15.8	2.0		196.0	196.5
44	80	105	24	0	5	12		214	226
45	113	22	39	12	13	28		199	227
46	128	21	20	8	11	7		188	195
47	137	31	36	3	21	11		228	239
August	458	179	119	23	50	58		829	887
Avg Week	114.5	44.8	29.8	5.8	12.5	14.5		207.3	221.8
48	118	17	31	4	7	5		177	182
49	125	20	11	1	12	19		169	188
50	148	81	27	6	23	53		285	338
51	135	83	16	13	14	18		261	279
52	167	93	17	38	16	28		331	359
Septembe	693	294	102	62	72	123		1223	1346
Avg Week	138.6	58.8	20.4	12.4	14.4	24.6		244.6	269.2

Total Pages Transmitted
From
All Cities



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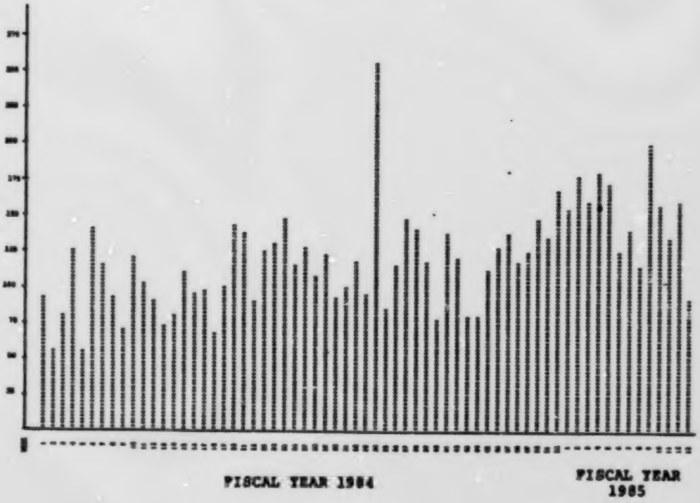
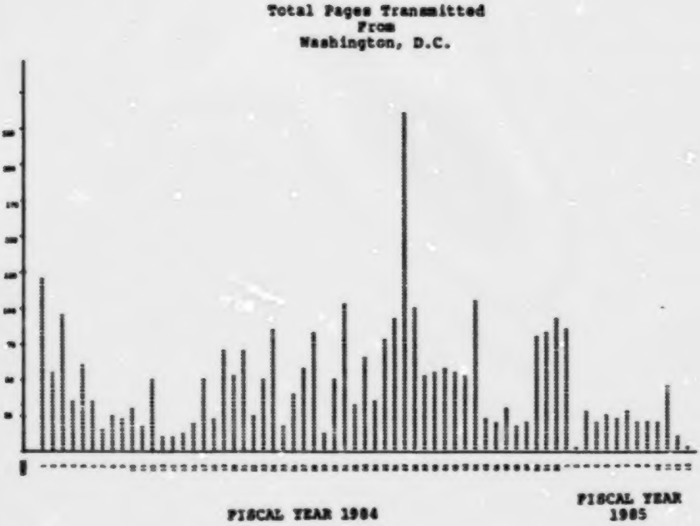
New York City

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FISCAL YEAR 1984
FISCAL YEAR
1985

III. EFFORTS GOING FORWARD

OBJECTIVE: A "STEP-FUNCTION" BOOST IN SALES

STRATEGY:

1. CONCENTRATE EFFORTS ON DEVELOPING COLLATERAL RELATIONSHIPS FOR BUILDING WHOLESALE VOLUME
2. TARGET DEVELOPMENT OF HIGH VOLUME RETAIL NICHES.

III. EFFORTS GOING FORWARD (Continued)

STRATEGY:

1. CONCENTRATE EFFORTS ON DEVELOPMENT OF WHOLESALE VOLUME:

   - GET AN ARRANGEMENT WITH A FEW FAX MANUFACTURERS TO BENEFIT USPS. DEVELOP CO-OP AD PROGRAM, SALES BROCHURES TO ASSIST THESE EFFORTS.

   - INITIATE CONTACT WITH COURIER COMPANIES, FAX BUREAUS, PRIVATE POST OFFICES, COPY CENTERS, TO DETERMINE INTEREST IN COLLATERAL ARRANGEMENTS.

   - IDENTIFY ANY CHANGES IN INTELPOST OPERATIONS NEEDED TO MEET WHOLESALER NEEDS.

   - DEVELOP A DISTRIBUTOR PACKAGE FOR WHOLESALE RELATIONSHIPS, INCLUDING SALES MATERIALS, PRO-FORMAS, CO-OP ADVERTISING PROGRAM.

   - INITIATE "800" # TO PROMOTE DIAL-IN USE OF SYSTEM.

   - RESTRUCTURE MEDIA/PROMOTION SCHEDULE AND BUDGET TO ATTRACT WHOLESALE RELATIONSHIPS VIA : CO-OP ADVERTISING WITH FAX MANUFACTURERS DIRECTED TO ENTREPRENEURS, ADVERTISING INTELPOST DIRECTLY TO ENTREPRENUER AUDIENCE AS AN ATTRACTIVE BUSINESS OPPORTUNITY.

   - COORDINATE ALL NEW MEDIA INITIATIVES WITH Y&R.

   - WORK WITH MEG HARRIS TO PROMOTE INTELPOST TO COMMERCIAL TRADE PRESS.

   - DEVELOP A TEAM OF CSR'S WHO CAN MAKE CALLS AND ANSWER QUESTIONS.

2. TARGET DEVELOPMENT OF HIGH VOLUME RETAIL NICHES:

- IDENTIFY MARKET NICHES VIA:
    - Customer Interviews
    - Analysis of trade activity.
- INVESTIGATE PRICING ISSUES TO MAKE SERVICE MORE COMPETITIVE WITH COURIER SERVICES VIA:
    - Quantity discounts
    - Multiple page document tiered pricing
    - Develop relationship with fax manufacturers and institute "800" # dial-in service to solve pick-up problem.

ADDENDUM: DESCRIPTION OF TASKS TO DATE

TASKS ACCOMPLISHED 1/2 - 1/18:

1. REVIEWED AND ANALYZED INTERNAL AND EXTERNAL DATA:

   - Market Studies: COMSAT - 1979
     R.H. BRUSKIN - 9/81
     A.D. LITTLE - 9/83
     HOUSE SUBCOMMITTEE - 1984
   - Analyzed Volume Data
   - Reviewed USPS Cost analysis of INTELPOST; Interviewed Jack Driscoll
   - Interviewed Competitor Salespeople; Reviewed current competitor sales materials

2. REVIEWED MEDIA / PROMOTIONAL EFFORTS

   - Interviewed Y & R and Chapman personnel
   - Interviewed Meg Harris - USPS Public Relations
   - Reviewed Media Plans, Direct Marketing Plans
   - Reviewed User Guide, collateral promotion materials

3. REVIEWED SALES EFFORTS

   - Interviewed Tony Argento and NY INTELPOST personnel
   - Interviewed Mike Trader and Al Kelleher - HQ Sales Development

4. REVIEWED CUSTOMER DATA

   - Completed 5 customer interviews; additional interviews to be scheduled
   - Reviewed customer and trust account lists in NY, Washington, Chicago, SFO

5. REVIEWED INTELPOST OPERATIONS

   - Tour of NY and Washington INTELPOST sites; various acceptance centers

ATTACHMENT B

THE PARTRIDGE GROUP
SUITE 620, 1110 VERMONT AVENUE, N.W., WASHINGTON, D.C. 20005 (202) 785-5500

Memorandum on INTELPOST, Page Two
July 12, 1985

INTELPOST MARKETING PROJECT
REVIEW OF WORKING FILES

COLLATERAL AGENT CUSTOMER FILES:

A. Shared Office Facility Companies

Headquarters Companies: During May and June, 10 of HQ's 60 centers were opened with USPS CSR's, as collateral agents for INTELPOST. File contains details on these seed accounts, and records of negotiations and correspondence with HQ corporate staff.

Omni: Approached to act as collateral agent. Expressed little interest. File contains correspondence and records of discussions with Omni management.

Prospect Lists of Shared office facilities by market: Sample lists gleaned from Yellow Page directories in INTELPOST Gateway Cities. Modest and simple sales promotion efforts might be made via mass mailing of a letter to these listings to qualify interested potential agents. Y&R/Chapman could economically (approx. $100) buy national listing of this category. Letter could be produced in-house.

B. Private Postal Retailers

MailBoxes Etc., USA: During May and June, 4 MBE markets, representing 30 - 40 MBE retail outlets, were opened as collateral agents in a test market program. This account has large potential - both as INTELPOST agents and for other USPS services. File contains details on all discussions and activities with MBE.

Postal Plus: Approached to act as collateral agent. No interest at this time. File contains correspondence.

World Mail Services: Company is very interested in INTELPOST and other USPS services. Recently changed ownership and in midst of aggressive expansion. Needs to be pursued for overall USPS business. File contains details of discussions.

Prospect Lists of Postal Retailers by market: File contains various individual leads to be followed up by letter or direct contact by field. Also, lists gleaned from Yellow Pages for selected markets. National list might be procured for modest mass mailing to qualify leads.

C. Pre-sort Service Agencies

Zipcoders, New York and San Francisco: Approached about becoming collateral agent. Currently studying their customer base to assess demand. Needs follow up by INTELPOST HQ and NY CSR. File contains details of discussions and correspondence.

MCIC, Milwaukee: Current collateral agent. File contains records of discussions.

Prospect Lists: Lists from USPS, inquiries from ISAL consolidators, and mailer association memberships. Might be used for mass mailing to qualify leads.

D. Electronic Mail / Facsimile Service Bureaus

CMS, Detroit: Established as collateral agent. File contains records of discussions.

Prospect Lists: Yellow Page listings, USPS listings of ECOM service bureaus, and inquiries to be followed up. FAX/NET directory (see below) also good source for a mass mailing to solicit these service bureaus as collateral agents.

E. Miscellaneous Sales leads

Business Travel Services: American Airlines and others executive services firms to be approached as agents.

Other Agents

End-Users: Direct inquiries for information that need to be followed up.

FILES ON JOINT MARKETING OPPORTUNITIES:

F. Facsimile Industry

Pitney Bowes: Discussions in progress on several joint marketing programs (bill stuffers, sales force dissemination of INTELPOST literature, etc.) Priority in short term.

Xerox: Discussions in progress on several joint marketing programs, long term business relationships, and possibility of signing Xerox Copy Centers (50 nationally) as collateral agents. Priority in short term.

F. Facsimile Industry, cont.

Panafax: Discussions in progress on several joint marketing programs, including joint public relations campaign. Priority in short term.

FAX/NET Directory: Discussions in progress on editorial and advertising for this directory that will reach 25,000 + facsimile users. File details sensitive issues that need to be resolved by USPS management. High Priority in short term.

Network Facsimile: "Competitor". Also interested in being agent. Principal is knowledgeable, good information source on the fax industry. File contains record of discussions and corespondence.

UTI: new version of ACI's "The Beam". Claim they are operational, but little evidence of same. File contains records of discussions.

G. Telecommunications Industry

AT&T: May be a long term relationship. File contains records of discussions and correspondence with new AT&T Mail division.

PARTLIDGE GROUP DOCUMENTATION TO USPS MANAGEMENT:

H. Partridge Groups Reports

Interim Presentations: Copies of all presentations made during term of contract.

Billing Letters: Copies of all billing letters for term of contract.

I. INTELPOST marketing materials prepared by Partridge Group

Copies of all materials prepared and used to promote INTELPOST

ATTACHMENT C

SENIOR ASSISTANT POSTMASTER GENERAL
Management Information and Research Technology Group
Washington, DC 20260-8000

May 28, 1985

MEMORANDUM FOR MRS. STRANGE

SUBJECT: Transfer of INTELPOST Activities to the Customer Services Department

During the many meetings and discussion periods which I have been involved in on INTELPOST, it has become increasingly clearer that this activity should be moved to the International Office of the Customer Services Department (CSD). In the CSD, there now exists an infra-structure which could lend support to the INTELPOST establishment as a collateral function.

There is also contact from the International Office, CSD, with the foreign postal administration on a continuing basis, which could be utilized for the INTELPOST project. In essence, we are establishing a dual function in the Technology Resource Department with dual foreign contact, etc.

This has been discussed with Gordon Morison and has his concurrence. With your concurrence, I would like to make this move and transfer Mrs. Fern Harris, along with all the activities of INTELPOST, to the CSD. For recordkeeping purposes, I am suggesting the beginning of Quarter IV to effect this transfer.

Please advise.

J. K. Lee, Sr.

THE DEPUTY POSTMASTER GENERAL
Washington, DC 20260-0050

June 5, 1985

MEMORANDUM FOR MR. LEE

SUBJECT: Transfer of INTELPOST Activities
to the Customer Services Department

Your proposal to transfer INTELPOST activities to the International Marketing Branch of the Customer Services Department is approved.

Please coordinate with Employee and Labor Relations and let me know when the action is completed.

Jackie A. Strange

cc: Mr. Coughlin
Mr. Morison
Miss George

ATTACHMENT D

POSTAL BULLETIN

III. INTELPOST® Delivery Procedures

A. Delivery Options

The delivery option checked by the sender on Form 5850B, *INTELPOST Transmittal* (See illustration on page 6), is visible through the window of the INTELPOST envelope:

A—Regular Service
B—Special Delivery Service
D—Window Pick-Up (available only at INTELPOST Service Centers or designated sites)

B. Assignment and Delivery Procedures

Immediately upon arrival, send all INTELPOST mail to an employee designated to assign it for delivery. The designated employee will handle the INTELPOST mail as follows:

1. Regular Delivery

Give the INTELPOST items to the appropriate employee for delivery on the first regular trip after it is received. Regular delivery includes city delivery, rural delivery, post office box delivery, and general delivery.

2. Special Delivery

When Special Delivery service has been requested and paid for by the sender, make delivery in accordance with existing regulations governing special delivery.

3. Delivery to Military Installations

Deliver INTELPOST mail addressed for delivery at military installations within the continental United States in accordance with existing delivery procedures.

4. Forwarding

Forward INTELPOST items as First-Class Mail.

5. Undeliverable

Endorse undeliverable INTELPOST mail with the reason for non-delivery and return it to the originating INTELPOST Service Center.

III. INTELPOST® Delivery Procedures

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IV. INTELPOST Service Centers and Service Areas

The following is a list of the twelve INTELPOST Service Centers presently in operation and the SCFs/cities they serve. Each listed SCF/city has been reviewed by the responsible region to assure that overnight service can be made to these areas. For assistance or additional information, contact the center serving your SCF/city.

New York Gateway

New York, NY INTELPOST Service Center
General Post Office—JAF Bldg.
New York, NY 10001-9101
Telephone: 212/971-7014

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 100-104, 110-114.

Special Delivery (MON thru SAT)

Received by 0400 hours and 1300 hours—Delivery same day in ZIP Codes 100-104, 110-114.

Received by 0400—Delivered same day (special delivery only) in ZIP Codes 068, 069.

Window Pickup (MON thru SAT)

Received between 0830 and 1700 hours—Ready for pickup one hour after receipt at:

Window 37
James A Farley Building
33rd Street & Eighth Avenue
New York, NY 10001-9998

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
060, 061	Hartford, CT
062	Willimantic, CT
064-066	New Haven, CT
067	Waterbury, CT
068, 069	Stamford, CT
070-073	Newark, NJ
074, 075	Patterson, NJ
076	Hackensack, NJ
077	Red Bank, NJ
078	Dover, NJ
079	Summit, NJ
100, 102	GPO, New York, NY
103	Staten Island, NY
104	Bronx, NY
105-108	Westchester, NY
109	Suffern, NY
110, 111, 113, 114	Queens, NY
112	Brooklyn, NY
115, 117, 118	Hicksville, NY
116	Far Rockaway, NY
119	Riverhead, NY
120-123	Albany, NY
124	Kingston, NY
125, 126	Poughkeepsie, NY
127	Monticello, NY
128	Glen Falls, NY
130-132	Syracuse, NY
133-135	Utica, NY
136	Watertown, NY
137-139	Binghamton, NY
140-143	Buffalo, NY
144-146	Rochester, NY
147	Jamestown, NY
148-149	Elmira, NY
090-098	New York, NY (Military)

Washington Gateway

Washington, DC INTELPOST Service Center
City Post Office
2 Massachusetts Avenue, NE
Washington, DC 20022-9101
Telephone: 202/523-2481

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 200-209, 220-223.

Special Delivery (MON thru SAT)

Received by 0400 hours and 1300 hours—Delivered same day in ZIP Codes 200-205.

Window Pickup (MON thru SAT)

Received between 0800 and 2400 hours—Ready for pickup one hour after receipt at:

Window 14
Main Post Office
North Capitol & Massachusetts Avenue
Washington, DC 20066-9998

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
080, 083	South Jersey, NJ
081	Camden, NJ
082, 084	Atlantic City, NJ
085, 086	Trenton, NJ
087	Toms River, NJ
088, 089	New Brunswick, NJ
150-152	Pittsburgh, PA
153	Washington, PA
154	Uniontown, PA
155	Johnstown, PA
156	Greensburg, PA
157	Indiana, PA
158	Dubois, PA
159	Johnstown, PA
160, 162	Butler, PA
161	New Castle, PA
163	Oil City, PA
164, 165	Erie, PA
166	Altoona, PA
167	Bradford, PA
168	State College, PA
170-172	Harrisburg, PA
173-176	Lancaster, PA
177	Williamsport, PA
178	Harrisburg, PA
179	Pottsville, PA
180, 181, 183	Lehigh Valley, PA
182	Wilkes Barre, PA
184, 185	Scranton, PA
186, 187	Wilkes Barre, PA
188	Scranton, PA
189	Southeastern, PA
190, 191	Philadelphia, PA
192-194	Southeastern, PA
195, 196	Reading, PA
197-199	Wilmington, DE
200-205	Washington, DC
206-209	Prince Georges, MD
210-214	Baltimore, MD
215	Cumberland, MD
216	Easton, MD
217	Frederick, MD
218	Salisbury, MD
219	Baltimore, MD
220-223	Northern Virginia, VA
224, 225	Richmond, VA
226	Winchester, VA
227	Culpepper, VA
228	Harrisonburg, VA
229, 244	Charlottesville, VA
230-232	Richmond, VA
233-236	Norfolk, VA
237	Portsmouth, VA
238	Petersburg, VA
239	Farmville, VA
240, 241	Roanoke, VA
242	Bristol, VA
243	Pulaski, VA
245	Lynchburg, VA
246-248	Bluefield, WV
250-253	Charleston, WV
254	Martinsburg, WV
255-257	Huntington, WV
258, 259	Beckley, WV
262	Buckhannon, WV
263-265	Clarksburg, WV
266	Gass A way, WV
267	Cumberland, MD
268	Petersburg, WV
270-274	Greensboro, NC

Next Day Delivery—Continued

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
275-277	Raleigh, NC
278	Rocky Mount, NC
279	Elizabeth City, NC
280-282	Charlotte, NC
283	Fayetteville, NC
284	Wilmington, NC
285	Kinston, NC
297	Charlotte, NC
305	Gainsville, GA
442, 443	Akron, OH
448, 449	Mansfield, OH
456	Chillicothe, OH

Chicago Gateway

Chicago, IL INTELPOST Service Center
433 West Van Buren Street, Rm 9540
Chicago, IL 60607-9101
Telephone: 312/886-9440

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 606.

Special Delivery (MON thru SAT)

Received between 0401 and 1000 hours—Delivered same day in ZIP Codes 606.

Window Pickup (MON thru FRI)

Received between 0700 and 1800 hours—ready for pickup one hour after receipt at:

Main Post Office
433 W. Van Buren Street
Chicago, IL 60667-9998

Received between 0700 and 1100 (SAT only)—ready for pickup one hour after receipt.

Next Day Delivery

First three digits of Zip Code area being served	Name of SCF/city serving three digit Zip Code area
129	Plattsburg, NY
169	Wellsboro, PA
249	Lewisburg, WV
260	Wheeling, WV
261	Parkersburg, WV
286	Hickory, NC
295	Florence, SC
293, 296	Greenville, SC
369, 393	Meridian, MS
387	Greenville, MS
382	McKenzie, TN
383	Jackson, TN
384	Columbia, TN
385	Cookeville, TN
388	Tupelo, MS
389	Grenada, MS
390-392	Jackson, MS
393, 369	Meridian, MS
394	Laurel, MS
395	Gulfport, MS
396	McComb, MS
397	Columbus, MS
403-406	Lexington, KY
410	Cincinnati, OH
411, 412	Ashland, KY
413, 414	Campton, KY
415, 416	Pikeville, KY

Next Day Delivery—Continued

First three digits of Zip Code area being served	Name of SCF/city serving three digit Zip Code area
417, 418	Hazzard, KY
420	Paducah, KY
421-422	Bowling Green, KY
423	Owensboro, KY
424	Evansville, IN
425, 426	Somerset, KY
427	Elizabethtown, KY
430-433	Columbus, OH
434-436	Toledo, OH
437, 438	Zanesville, OH
439	Stubenville, OH
440-441	Cleveland, OH
442, 443	Akron, OH
444, 445	Youngstown, OH
446, 447	Canton, OH
448, 449	Mansfield, OH
450-452	Cincinnati, OH
453-455	Dayton, OH
456	Chillicote, OH
457	Athens, OH
458	Lima, OH
460-462	Indianapolis, IN
463-464	Gary, IN
465-466	South Bend, IN
467, 468	Fort Wayne, IN
469	Kokomo, IN
470	Cincinnati, OH
472	Columbus, IN
473	Muncie, IN
474	Bloomington, IN
475	Washington, IN
476, 477	Evansville, IN
478	Terre Haute, IN
479	Lafayette, IN
481, 482	Detroit, MI
480, 483	Royal Oak, MI
484, 485	Flint, MI
486, 487	Saginaw, MI
488, 489	Lansing, MI
490, 491	Kalamazoo, MI
492	Jackson, MI
493-495	Grand Rapids, MI
496	Traverse City, MI
497	Gaylord, MI
498, 499	Iron Mountain, MI
500-503	Des Moines, IA
504	Mason City, IA
505	Fort Dodge, IA
506-507	Waterloo, IA
508	Creston, IA
510-511	Sioux City, IA
512	Sheldon, IA
513	Spencer, IA
514	Carrol, IA
515, 516	Omaha, NE
520	Dubuque, IA
521	Decorah, IA
522-524	Cedar Rapids, IA
525	Ottumwa, IA
526	Burlington, IA
527, 528	Davenport, IA
530-534	Milwaukee, WI
535, 537, 538	Madison, WI
539	Portage, WI
540	St. Paul, MN
541-543	Green Bay, WI
544	Wausau, WI
545	Rhinelander, WI
546	La Crosse, WI

Next Day Delivery—Continued

First three digits of Zip Code area being served	Name of SCF/city serving three digit Zip Code area
547	Eau Claire, WI
548	Spooner, WI
549	Oshkosh, WI
550, 551	St. Paul, MN
553, 554	Minneapolis, MN
556-558	Duluth, MN
559	Rochester, MN
560	Mankato, MN
561	Windom, MN
562	Willmar, MN
563	St. Cloud, MN
564	Brainerd, MN
565	Detroit Lakes, MN
566	Bemidji, MN
567	Three River Falls, SD
570, 571	Sioux Falls, SD
572	Watertown, SD
573	Mitchell, SD
574	Aberdeen, SD
575	Pierre, SD
576	Mobridge, SD
577	Rapid City, SD
580, 581	Fargo, ND
582	Grand Forks, ND
583	Devils Lake, ND
584	Jamestown, ND
585	Bismark, ND
586	Dickinson, ND
587	Minot, ND
588	Williston, ND
592	Wolf Point, MT
600-603	North Suburban, IL
604-605	South Suburban, IL
606	Chicago, IL
609	Kankakee, IL
610, 611	Rockford, IL
612	Rock Island, IL
613	LaSalle, IL
614	Galesburg, IL
615, 616	Peoria, IL
617	Bloomington, IL
618, 619	Champaign, IL
620	St. Louis, MO
622	East St. Louis, IL
623	Quincy, IL
624	Effingham, IL
625-627	Springfield, IL
628	Centralia, IL
629	Carbondale, IL
630-633	St. Louis, MO
634	Hannibal, MO
635	Kirksville, MO
636	Flatriver, MO
637	Cape Girardeau, MO
638	Sikeston, MO
639	Poplar Bluff, MO
640, 641	Kansas City, MO
644, 645	St. Joseph, MO
646	Chillicothe, MO
647	Harrisonville, MO
648	Joplin, MO
650-652	Jefferson City, MO
653	Sedalia, MO
654-655	Rolla, MO
656-658	Springfield, MO
660, 661	Kansas City, KS
662	Shawnee Mission, KS
664-666, 668	Topeka, KS
667	Fort Scott, KS

Next Day Delivery—Continued

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
669, 674	Salina, KS
670-672	Wichita, KS
673	Independence, KS
675	Hutchinson, KS
676	Hays, KS
677	Colby, KS
678	Dodge City, KS
679	Liberal, KS
680-682	Omaha, NE
683-685	Lincoln, NE
686	Columbus, NE
687	Norfolk, NE
688	Grand Island, NE
689	Hastings, NE
690	Mc Cook, NE
691	North Platte, NE
692	Valentine, NE
693	Alliance, NE
723	Memphis, TN
737	Enid, OK
739, 679	Liberal, KS

Houston Gateway

Houston, TX INTELPOST Service Center
401 Franklin
Houston, TX 77201-9101
Telephone: 713-226-3499

Regular Delivery (MON thru SAT)

Received by 0400—Delivered same day in ZIP Codes 770-772.

Special Delivery (MON thru SAT)

Received between 0400 and 1100 hours—Delivery same day in ZIP Codes 770-772.

Window Pickup

Received between 0700 and 1900 hours (MON thru FRI)—Ready for pickup one hour after receipt at:

U.S. Postal Service
401 Franklin
Houston, TX 77201-9998

Received between 0800 and 1100 hours (SAT only)—Ready for pickup one hour after receipt.

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three-digit ZIP Code area
700, 701	New Orleans, LA
703	Thibodaux, LA
704	Hammond, LA
705	Lafayette, LA
706	Lake Charles, LA
707, 708	Baton Rouge, LA
710, 711	Shreveport, LA
712	Monroe, LA
713, 714	Alexander, LA
716	Pine Bluff, AR
717	Camden, AR
718, 755	Texarkana, TX
719	Hot Springs, AR
720-722	Little Rock, AR
724	Jonesboro, AR
725	Batesville, AR
726	Harrison, AR
727	Fayetteville, AR
728	Russellville, AR
729	Fort Smith, AR
730, 731	Oklahoma City, OK
734	Ardmore, OK
735	Lawton, OK
736	Clinton, OK
738	Woodward, OK
740, 741, 743	Tulsa, OK
744	Muskogee, OK
745	McAlester, OK
746	Ponca City, OK
747	Durant, OK
748	Shawnee, OK
749	Poteam, OK
750-753	Dallas, TX
[illegible]	Greenville, TX
718, 755	Texarkana, TX
756	Longview, TX
757	Tyler, TX
758	Palestine, TX
759	Lufkin, TX
760, 761, 764	Fort Worth, TX
762	Denton, TX
763	Wichita, TX
765	Temple, TX
766, 767	Waco, TX
768, 795	Abilene, TX
769, 797	Midland, TX
770-772, 774, 775	Houston, TX
773	Conroe, TX
776, 777	Beaumont, TX
778	Bryan, TX
779	Victoria, TX
780-782, 788	San Antonio, TX
783, 784	Corpus Christi, TX
785	McAllen, TX
786, 787, 789	Austin, TX
790, 791	Amarillo, TX
792 (EXCEPT 79234)	Childress, TX
793, 794	Lubbock, TX
795	Abilene, TX
797	Midland, TX
798, 799	El Paso, TX

Los Angeles Gateway

Los Angeles, CA INTELPOST Service Center
900 North Alameda Street
Los Angeles, CA 90052-9101
Tel: 213-688-5825

Regular Delivery (MON thru SAT)

Received by 0400—Delivered same day in 900 ZIP Code.

Special Delivery (MON thru SAT)

Received by 2000 hours—Delivery in 900 ZIP Code same day.

Window Pickup (MON thru SAT)

Received between 0830-2000 hours—Ready for pickup one hour after receipt at:

Terminal Annex Window Unit
900 N. Alameda Street,
Los Angeles, CA 90052-9101

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three-digit ZIP Code area
850-853	Phoenix, AZ
855	Globe, AZ
856, 857	Tuscon, AZ
859	Snowlow, AZ
860	Flagstaff, AZ
863	Prescott, AZ
864	Kingman, AZ
890, 891	Las Vegas, NV
900, 901	Los Angeles, CA
902-905	Inglewood, CA
906	Whittier, CA
907, 908	Long Beach, CA
910-912	Pasadena, CA
913-916	Van Nuys, CA
917, 918	Alhambra, CA
920, 921	San Diego, CA
922	Palm Springs, CA
923-925	San Bernardino, CA
926-928	Santa Ana, CA
930	Oxnard, CA
931, 934	Santa Barbara, CA
932, 933	Bakersfield, CA
935	Mojave, CA

Miami Gateway

Miami, FL INTELPOST Service Center
General Mail Facility Tel. 305-592-3450
2200 N.W. 72nd Avenue
Miami, FL 33152-9101

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 330-333.

Special Delivery (MON thru SAT)

Received between 0400 and 1100 hours—Delivered same day in ZIP Codes 330-333.

Window Pickup (MON thru FRI)

Received between 0700 and 2100 hours—Ready for pickup one hour after receipt at:

General Mail Facility
2200 N.W. 72nd Avenue
Miami, FL 33152-9101

Received between 0800 and 1100 hours (SAT only)—Ready for pickup one hour after receipt.

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three-digit ZIP Code area
320-322	Jacksonville, FL
323	Tallahassee, FL
324	Panama City, FL
325	Pensacola, FL
326	Gainesville, FL
327-329	Orlando, FL
330-333, 340	Miami, FL
334	West Palm Beach, FL
335-338, 342	Tampa, FL
339, 340	Fort Myers, FL

San Francisco Gateway

San Francisco, CA
INTELPOST Service Center
1300 Evans Avenue
San Francisco, CA 94188-9101
Tel. 415-550-5124

Regular Delivery (MON thru SAT)

Received by 0400—Delivered same day in ZIP Codes:

940-944—San Francisco, CA
945-948—Oakland, CA
949—San Rafael, CA
950-951—San Jose, CA

Special Delivery (MON thru SAT)

Received by 1430 hours—Delivered same day in ZIP Codes 941—San Francisco.

Window Pickup (MON thru FRI)

Received between 0800-2030 hours—Ready for pickup one hour after receipt at:

INTELPOST Service Center
General Mail Facility, Finance Station
1300 Evans Avenue
San Francisco, CA 94188-9101

(SAT only)

Received between 0800-1300 hours—Ready for pickup one hour after receipt.

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three-digit ZIP Code area
894, 895, 897	Reno, NV
936, 937, 938	Fresno, CA
939	Salinas, CA
940-944	San Francisco, CA
945-948	Oakland, CA
949	San Rafael, CA
950, 951	San Jose, CA
952, 953	Stockton, CA
954	Santa Rosa, CA
955	Eureka, CA
956-958	Sacramento, CA
959	Marysville, CA
960	Redding, CA
961	Reno, NV
962-965	APO (SF) CA
966	FPO (SF) CA

Atlanta Gateway

INTELPOST Service Center
Main Post Office
3900 Crown Road, SW
Atlanta, GA 30304-9101
Tel. 404-765-7455

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 303.

Special Delivery (MON thru SAT)

Received between 0400 and 1300 hours—Delivered same day in ZIP Codes 303.

Window Pickup (MON thru SAT)

Received between 0800 to 1600—Ready for pickup one hour after receipt at the window at the Main Post Office.

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
287-289	Asheville, NC
290-292	Columbia, SC
294	Charleston, SC
298	Augusta, GA
299	Savannah, GA
300-303	Atlanta, GA
304	Swainsboro, GA
305	Gainesville, GA
306	Athens, GA
307	Chattanooga, TN
308, 309	Augusta, GA
310, 312	Macon, GA
313, 314	Savannah, GA
315	Waycross, GA
316	Valdosta, GA
317	Albany, GA
318, 319	Columbus, GA
350-352, 355	Birmingham, AL
354	Tuscaloosa, AL
356-358	Huntsville, AL
359	Gadsden, AL
360, 361	Montgomery, AL
362	Anniston, AL
363	Dothan, AL
364	Evergreen, AL
365, 366	Mobile, AL
367	Selma, AL
368	Opecka, AL
370-372	Nashville, TN
373-376	Chattanooga, TN
377-379	Knoxville, TN
380, 381, 386, 723	Memphis, TN
400-402, 471	Louisville, KY
407-409	Corbin, KY

Boston Gateway

INTELPOST Service Center
General Mail Facility
25 Dorchester Avenue
Boston, MA 02205-9101

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 017, 020, 021, and 022.

Special Delivery (MON thru SAT)

Received between 0400 and 1500 hours—Delivered same day in ZIP Codes 021 and 022.

Window Pickup (MON thru SAT)

Received between 0800 to 2000—Ready for pickup one hour after receipt at the lobby window at the General Mail Facility.

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
010, 011, 013	Springfield, MA
012	Pittsfield, MA
014, 016	Worcester, MA
017	Framingham, MA
018, 019	Middlesex, MA
020-022	Boston, MA
023, 024	Brockton, MA
025	Buzzards Bay, MA
026	Hyannis, MA

Next Day Delivery—Continued

First three digits of ZIP Code area being served	Name of SCF/city serving three-digit ZIP Code area
027-029	Providence, RI
030-034	Manchester, NH
035, 037	White River Junction, VT
036	Brattleboro, VT
038, 039	Portsmouth, NH
040, 041, 045	Portland, ME
042	Auburn, ME
043	Augusta, ME
044, 046, 047	Bangor, ME
048	Rockland, ME
049	Waterville, ME
050	White River Junction, VT
051, 053	Brattleboro, VT
052	Bennington, VT
054	Burlington, VT
056-059	White River Junction, VT

Denver Gateway

INTELPOST Service Center
Terminal Annex
1501 Wynkoop
Denver, CO 80217-9101

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 802.

Special Delivery (MON thru SAT)

Received between 0400 and 1500 hours—Delivered same day in ZIP Codes 802.

Window Pickup (MON thru FRI)

Received between 0700 to 2100—Ready for pickup one hour after receipt at the Express Mail Window at the Terminal Annex.

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
796	Abilene, TX
800-804	Denver, CO
805	Longmont, CO
806, 807	Brighton, CO
808, 809	Colorado Springs, CO
810	Pueblo, CO
811	Alamosa, CO
812	Salida, CO
813	Durango, CO
814	Montrose, CO
815	Grand Junction, CO
816	Glenwood Springs, CO
820, 821	Cheyenne, WY
822	Wheatland, WY
823	Rawlins, WY
824	Worland, WY
825	Riverton, WY
826	Casper, WY
827	Gillette, WY
828	Sheridan, WY
829-831	Rock Springs, WY
832, 834	Pocatello, ID
833	Twin Falls, ID
835	Lewiston, ID
836, 837, 979	Boise, ID
840-844	Salt Lake City, UT
845-847	Provo, UT

Next Day Delivery—Continued

First three digits of ZIP Code area being served	Name of SCF/city serving three-digit ZIP Code area
870-872, 875	Albuquerque, NM
865, 873	Gallup, NM
874	Farmington, NM
877	Las Vegas, NM
878	Socorro, NM
879	Truth or Consequences, NM
880	Las Cruces, NM
881	Clovis, NM
882	Roswell, NM
883	Carrizozo, NM
884	Tucumcari, NM
893	Ely, NV
898	Elko, NV
994	Lewiston, WA

Seattle Gateway

INTELPOST Service Center
Terminal Annex
2445 Third Avenue, South
Seattle, WA 98124-9101
Tel 206-621-0837

Regular Delivery (MON thru SAT)

Received by 0400 hours—Delivered same day in ZIP Codes 980-982.

Special Delivery (MON thru SAT)

Received between 0400 to 1300 hours—Delivered same day in ZIP Codes 980-982.

Window Pickup (MON thru FRI)

Received between 0830 to 1730—Ready for pickup one hour after receipt at the Terminal Station only.

Next Day Delivery

First three digits of ZIP Code area being served	Name of SCF/city serving three digit ZIP Code area
590, 591	Billings, MT
593	Miles City, MT
594	Great Falls, MT
595	Havre, MT
596	Helena, MT
597	Butte, MT
598	Missoula, MT

Next Day Delivery—Continued

First three digits of ZIP Code area being served	Name of SCF/city serving three-digit ZIP Code area
599	Kalispell, MT
970-972, 986	Portland, OR
973	Salem, OR
974	Eugene, OR
975	Medford, OR
976	Klamath-Falls, OR
977	Bend, OR
978	Pendleton, OR
980, 981, 987	Seattle, WA
982	Everett, WA
983, 984	Tacoma, WA
985	Olympia, WA
988	Wenatchee, WA
989	Yakima, WA
990-992, 838	Spokane, WA
993	Pasco, WA
995, 996	Anchorage, AK
997	Fairbanks, AK
998	Juneau, AK
999	Ketchikan, AK

Honolulu Gateway

Primary Center	INTELPOST Service Center, Terminal Annex 3600 Aolele Street Honolulu, HI 96820-9101 Tel 808-422-1147
Regular Delivery	(MON thru SAT) All mail for ZIP Code 967 delivered same day if received by 0100 Mail for ZIP Codes 968 delivered same day if received by 0500.
Special Delivery	(ZIP Code 968 only) Same day delivery (MON thru FRI) if received by 1530 hours SAT and SUN up to 1230.
Window Pickup	Ready for pickup one hour after receipt between the hours of 0830 and 1000 hours at Terminal Annex.

—*Technology Resources Dept., 10-10-85.*

APPENDIX 6.—USPS COST OF DELIVERY REPORT, DECEMBER 1985

COST

OF

DELIVERY

DECEMBER, 1985

PREPARED BY:

JAMES BERKLEY JR.
COST & ECONOMICS BRANCH
COST BENEFIT DIVISION
DEPARTMENT OF THE CONTROLLER

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EXECUTIVE SUMMARY

This study was conducted to determine the cost of delivery by type and mode of delivery.

A route survey was conducted on 1,570 city delivery and 349 rural routes, selected by using the ODIS/RPW frame and universe codes. A pretest was conducted in February 1985 at two to three test sites on different route types in each region prior to the start of the main study, to test the study methodology and data collection instruments.

The main route survey was conducted over two accounting periods, beginning April 15, 1985, and continuing through June 7, 1985, except the five boroughs of New York City which started March 18, 1985. New York City was given an early start date because of the large number of multi-carrier routes included in the survey sample.

To capture this data, a national corps of data collectors working in each region was assigned the task of collecting data by direct observation of the type and mode of delivery by letter carriers on each route in the sample frame.

The type of delivery includes: businesses; high rise office buildings; detached post office box units; detached homes; low rise apartments; townhouses (row houses); high rise apartment buildings; and trailer courts.

Mode of delivery includes: Door; Neighborhood Delivery and Collection Box Units (NDCBUs); Delivery Centers; Apartment Centers; Group Mail Boxes; Curbside; VIM Room; Behind the Sidewalk; Parcel Post (too large for box); Parcel Post (parcel lockers); and Special Services Mail.

The direct baseline cost for each type and mode of delivery was multiplied by a statistically-determined blowup factor based on route universe code to represent all routes in that universe and to arrive at the cost per delivery.

The costs per delivery by delivery mode for all delivery routes are:

Other Delivery	
Cost Per Delivery	$0.318
Annual Cost	$96.35
Curbside Delivery	
Cost Per Delivery	$0.249
Annual Cost	$75.45
Central Delivery	
Cost Per Delivery	$0.171
Annual Cost	$51.81[1]

Other Delivery includes door and behind the sidewalk delivery.

Curbside Delivery: no other delivery is included.

Central Delivery includes delivery to neighborhood delivery and collection box units (NDCBUs); apartment boxes; delivery centers; group boxes; VIM/mail room; central and bulk delivery.

The above delivery cost includes NDCBU maintenance and upkeep costs, vehicle cost (city delivery carriers) and Equipment Maintenance Allowance (EMA) for rural carriers.

Extreme caution is warranted against using the results of the study for other than its intended purpose.

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[1] Does not include the $2.73 annual FY-85 installed investment cost for each NDCBU delivery (see page 12 for details).

I. PURPOSE

Congress requested that the Postal Service update its 1974 Cost of Delivery study. The Postal Service has come under increasing criticism from citizen groups and some manufacturers on the use and procurement of Neighborhood Delivery and Collection Box Units (NDCBUs). In defense of the use of the NDCBU, USPS has stated that it is the most cost effective method of delivery and is used to control the rising cost of mail delivery. The primary purpose of this study is to update and improve the previous one and not to prove or disprove any of the issues surrounding certain modes of mail delivery.

II. STUDY SCOPE

Data necessary to develop a cost by type and mode of delivery were not available from in-house information systems. To assist in developing the required data, a field survey was conducted on 1,570 city delivery and 349 rural routes throughout the five Postal regions. The field survey was conducted over two accounting periods by personnel selected by district managers throughout the five Postal regions. Two personnel from each Regional Headquarters, one from the Cost Investment Analysis Branch and one from Delivery Programs Branch, assisted the Cost and Economics Branch, National Headquarters, with the training of data collectors and coordination of the study. Training seminars were conducted in each region to train data collectors on methods and procedures for collecting data for this study.

The sample frame of the 1,570 city delivery and 349 rural routes was selected by the Statistical Analysis Division, National Headquarters; the sample routes were selected randomly using the ODIS/RPW sampling frame and Universe Code. They are considered to be representative of all routes in their respective universe. Routes that no longer existed or had changed from the original form were replaced with a route in the same universe code.

III. METHODOLOGY

This section presents an overview of the methodology used to gather data required to develop a cost per delivery by type and mode of delivery.

Work activity codes were assigned to segments of a carrier's work day. The work activities surveyed by this study for city delivery carriers are:

ACTIVITY CODES
CITY DELIVERY ROUTES

ACTIVITY CODE	
100	Begin Time of the Carrier.
101	Casing Mail (both letters and flats).
102	Accountable Mail Functions - Preparing delivery receipts, postage due, customers' mail and casing of same. Traveling from route case to accountable case when applicable.
103	Strapping Out - Withdrawing mail from case and placing in sequence of delivery.
104	Other Office Work Not Covered - Will be used when preparing mail for central mark-up unit, nixie mail, computerized forwarding system and to answer official route communication, i.e., telephone, customer inquiries and letter correspondence.

105	End Time - Will be used to end route study, will not necessarily be the carrier's ending time for the day.
200	Begin Street Duties - When the carrier leaves office to load vehicle or to perform any activity not related to an office function prior to leaving office for route.
201	Travel Time - Use only for travel between office and route and return to office from route. Not to be used for route travel or deadheads while in the process of delivering mail.
400	Time Out - To allow the data collector to bring paper work up to the point of the carrier's next delivery.
410	Personal Time - To record authorized breaks in the office and on the street.
420	Lunch - Self explanatory.
310	Collections (Business)
370	Collections (Residential)
510	Relays (Business)
520	Relays (Residential)

PRIMARY ACTIVITY CODE	TYPE OF DELIVERY
31	Business Delivery - Delivery to a location where the customer is engaged in some commercial enterprise, includes: delivery to individually located business as well as office or industrial parks, factory areas, shopping malls, etc.
32	High Rise Office Building - Businesses located in a building containing three or more floors to which deliveries are made to individual or centralized locations.
33	Detached Post Office Box Units - Unmanned postal facilities where carrier delivery is made to post office boxes offered to the public for a fee.
34	Detached Homes - Individual, single-family dwelling units that are not physically connected.
35	Low Rise Apartments - Three or more multi-family dwelling units located on 1 to 3 floors (excluding basement level) and that have a common entrance.

36 Townhouses (Row Houses) - Two or more attached, multi-family dwelling units that have no common entrances.

37 High Rise Apartment Building - Multi-family dwelling unit located on four or more floors and that have a common entrance (excluding basement level).

38 Trailer Court - May be permanent or transient. Permanent developments consist of managed mobile home parks or residential mobile home subdivisions where the lots are permanently assigned, the streets are maintained for public use and the conditions are similar to those of a normal residential subdivision. Transient developments are recreational vehicle parks and trailer courts where the lots are temporarily rented and considered transient, even though some families may live in them for an extended period of time.

SECONDARY ACTIVITY CODE

MODES OF DELIVERY

1 Door Delivery - Delivery made to an individual residence or business that has a box, door slot or other delivery receptacle located at or near the building entrance.

2 Central Delivery - Two or more possible deliveries grouped at a central location (excludes curbline deliveries).

3 Curbside Delivery - Deliveries made to single or grouped boxes located at the curb.

4 Bulk Delivery - Unsorted mail delivered to a responsible individual, such as an apartment house manager, for subsequent distribution to tenants. Does not include delivery to tenant establishments such as hotels or motels that cater to transients.

5 VIM Room - Mail room for business deliveries where the carrier does the distribution to individual businesses/residences, usually located in the building where the distribution is made.

6 Behind the Sidewalk - Deliveries made to single or grouped boxes located some distance from the street, behind a sidewalk. This form of delivery is most commonly found where sidewalks and street curbing are joined as one unit.

7 Parcel Post Delivery (too large for box) - Parcel delivery to the door of an individual business or residence.

8 Parcel Post Delivery (Parcel Locker) - Parcel delivery for a customer of centralized delivery service that is not taken to the customers' door, but left in a locking parcel receptacle installed for that purpose.

9 Special Services Mail Delivery - Delivery of any mail piece requiring a customer signature, the collection of monies or other special service.

0 Other Street Duties - Customer inquiries on mailing information, postage rates and collection of mail.

In order to complete the activity code data field, a combination of the above primary and secondary codes were matched according to the work activity the carrier was performing.

A total of 1,570 city delivery routes were surveyed over two accounting periods. Each route was tested when activities for that route commenced. The test period was one delivery route per day. During this period, work activity data were gathered on the following carrier route activities:

A. Casing mail
B. Accountable cage
C. Strapping out
D. Office work not covered
E. Type of deliveries:

    1. Business
    2. High Rise Apartment Building
    3. Detached Post Office Box Units
    4. Detached Homes
    5. Low Rise Apartments
    6. Townhouses (Row Houses)
    7. High Rise Apartments
    8. Trailer Courts

F. Mode of deliveries:

    1. Door
    2. Neighborhood Delivery and Collection Box Units (NDCBUs)
    3. Delivery Center
    4. Apartment Style Boxes
    5. Group Mail Boxes
    6. Curbside

7. Bulk
8. VIM Room (AKA Mail Room)
9. Behind the Sidewalk
10. Parcel Post (too large for box)
11. Parcel Post (Parcel Lockers)
12. Special Services Mail
13. Other Street Duties

By direct observation, a data collector working in the office and on the street with the carrier completed data collection forms on each route for all activities that contributed to the delivery of mail for one day during the test period. The data collector began recording data when the carrier reported for duty. The header information on the data collection form was recorded using the PS Forms 1621 and 1564-A for city delivery carriers. The delivery unit ZIP Code, finance number, route type code and route number were completed on additional pages for routes that had multiple data collection forms for the eight-hour route survey.

Since the beginning work activity code for reporting time of the carrier was pre-recorded, only a start time was needed to begin the route study day. All subsequent entries for office activities required a work activity code and start time for each function; the actual deliveries column required the recording 0 0 0 to complete the line item for all office functions. The actual piece count of the route mail volume was not needed, only delivery volume in feet using the Delivery Unit Volume Recording System (DUVRS) measurement (rounded to nearest tenth).

On the street segment of the route, data was recorded on the type and mode of delivery and the actual number of deliveries made under an activity code. When the type and mode of delivery changed, a related activity code and new start time was recorded. If the carrier deadheaded or traveled a distance to continue the route delivery or to start a new type or mode of delivery, a new start time was not recorded until the actual start of the delivery. If the type and mode of delivery remained the same, the clock continued to run, i.e., the total time for travel was associated with that delivery.

On Expedited Preferential Mail (EPM) routes, the non-preferential volume and time was captured the day before the route study by the delivery supervisor on duty. The data collector contacted each office to verify the route and type in order to capture this volume and casing time prior to each route study. When a carrier on an EPM route returned to the office from street duties, the data collector ended the route study after the carrier cleared the accountable cage and finished all work activities associated with that day's route activity. The casing time for non-preferential volume for the next day's delivery was not recorded. This segment of the route was captured the day before the route study by the duty supervisor. On rural routes we were requested by Route Management Division personnel to abort our original plan to collect data using our methodology and to use data from the rural route count/evaluation study conducted during the month of March 1985 on all routes in the system. This data was substituted for the direct observation method by data collectors.

After reviewing the results of the latter study, a process was needed to make this data usable for costing purposes. The Route Management Division was requested to get additional data on the mileage between the different delivery types and modes to make the March 1985 study complete.

The work activities collected on rural routes by mileage were:

Type of Delivery: Business; High Rise Office Building; Detached Post Office Box Units; Detached Houses; Low Rise Apartments; Townhouses (row houses); High Rise Apartment Building; and Trailer Court.

Mode of Delivery: Door; Neighborhood Delivery and Collection Box Units (NDCBUs); Apartment Boxes; Delivery Centers; Curbside; and Bulk.

Additional data were collected on intermediate office stops and collection boxes (collection of mail only).

Salary for rural carrier positions on routes classified as mileage (M) is determined under the Rural Carrier Schedule (RCS), which provides a combined rate based on fixed annual compensation and specified rate per mile of route, which is determined by the official route measurement.

An evaluated route is one based on weekly work load evaluation and office and route time standards. There are three types of evaluated routes, H, J and K. High density rural routes are classified as L routes and have a density of twelve or more boxes per mile.

An auxiliary route is one which normally evaluates under 35 hours per week, and the carrier is compensated for hours actually worked.

Rural routes classified as an L will have another designated letter (i.e., L K, L J, or L H), or they can be classified as an H, J, K, M or auxiliary route.

H Route - The carrier works a six-day week and salary is determined by the evaluation system.

J Route - The carrier works five days one week and six days the following week and salary is determined by the evaluation system.

K Route - The carrier works five days per week and salary is determined by the evaluation system.

M Route - The carrier works six days per week and salary is determined by route miles.

Auxiliary Routes - Normally are evaluated under 35 hours per week and the carrier is paid for hours actually worked.

The method used to develop the cost of delivery for rural routes was to use the workhour rate[2], which includes compensation and fringe benefits, plus Equipment Maintenance Allowance (EMA) was multiplied by total hours used to deliver to each type and mode of delivery to develop total cost. The total cost for each delivery type and mode was divided by total deliveries for the average daily cost per delivery, which was multiplied by 303 (delivery days) to determine the annual cost for each type and mode of delivery by universe code.

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[2] Workhour rate = Basic Compensation (Base Salary; Overtime; Holiday, Annual, Sick and Terminal Leave; Training; and all Premium and Differential Pay) plus Fringe Benefits (Health; Life Insurance; Retirement; Social Security; Medicare; and Uniform Allowance).

City delivery carriers' salaries are based on a fixed annual compensation that has nothing to do with route type, deliveries, or route miles. City delivery carriers are usually paid for 8 hours work each day, 40 hours per week.

The method used to develop the cost of delivery for city delivery routes was to use the workhour rate[3], which includes compensation and fringe benefits, plus the average hourly vehicle cost. This was multiplied by total hours used to deliver to each type and mode of delivery to develop total cost. Total cost for each type and mode of delivery was divided by total deliveries to determine the daily cost per delivery, which was multiplied by 303 (delivery days) to determine the annual cost per delivery. Office and travel costs were included in all delivery costs.

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[3] Ibid.

Neighborhood Delivery and Collection Box Units (NDCBUs)

The Postal Service has assumed responsibility for all maintenance and upkeep cost on all NDCBUs installed and in service for mail delivery. The maintenance and upkeep cost including materials for Class A Offices was obtained from the National Maintenance Information Control System (NMICS). The maintenance and upkeep cost for Class B and Class C Offices was provided by the Maintenance Management Division in each region. Installation costs, when installed at USPS expense, could not be identified as a separate item in the reports received. The maintenance and upkeep cost could be greater than reported in Class B and Class C Offices because in some units Postmasters and Supervisors perform this function as part of their normal duties. Also, there is no reporting requirement for Class B and Class C Offices to delineate workhours by the function performed.

The maintenance class designations (A, B or C) assigned to each office are used to identify an office's maintenance capability and are not to be confused with post office class designations (1st, 2nd, 3rd, etc.), which are based on revenue units.

The total NDCBU maintenance and upkeep cost for FY-85 year-to-date A/P 13 for all regions was $2,374,701.

The costs for each region for all offices are as follows:

Northeast	$ 561,448
Eastern	104,575
Central	948,091
Southern	353,864
Western	406,723
Total	$2,374,701

According to the latest MSC data base statistics there were 246,062 NDCBUs in service as of November 1985; the average maintenance and upkeep cost per NDCBU through A/P 13, 1985, is annually $9.65 per unit or $.032 per day ($.003 per delivery[4]).

The total investment cost for the procurement of NDCBUs year-to-date, September 1985, for all regions is $11,559,444 for a total of 95,250 units of all types purchased in FY-85.

The total number of units installed during this period were 81,328 for an FY-85 investment of $10,038,734. The cost of the units installed during this fiscal year would add an average of $0.009 per day or $2.73 annually for each NDCBU delivery (not included in delivery cost).[5]

Calculations are based on the total number of NDCBU deliveries identified in the route study.

Ibid.

The total number of NDCBU units installed by region and investment cost are:

	FY-85 Cost	Units
Northeast	585,100	5,090
Eastern	791,330	7,285
Central	$ 1,708,530	12,792
Southern	2,866,299	23,568
Western	4,087,474	32,593
Totals	$10,038,733	81,328

For accounting purposes NDCBUs are considered as an expense item and are written off in the same period as when procured.

IV. SUMMARY RESULTS

The total direct baseline cost to provide delivery to the different types and modes has been developed by category for each universe code, which are:

Other Delivery - include door and behind the sidewalk delivery.

Curbside Delivery - no other deliveries are included.

Central Delivery - include neighborhood delivery and collection box units (NDCBUs), apartment boxes, delivery centers; other central (group boxes, mail/VIM Room, central and bulk).

The cost for each type and mode of delivery for city delivery routes was developed by using the city letter carrier workhour rate ($16.22), which includes compensation and fringe benefits, the vehicle hour cost ($1.52) for motorized routes. The non-motorized delivery costs were developed using only the letter carrier workhour rate ($16.22). The cost by type and mode for rural routes were developed using the rural carrier workhour rate ($15.37) and the Equipment Maintenance Allowance (EMA), which averages out to be $20.39 per day for all carriers or $2.72 per hour, based on the average route time of 7 hours and 30 minutes per day.

The actual office, travel and delivery time was multiplied by the statistically-determined factor unique to each universe code so that time captured during the route study would represent all routes in that respective universe. The overall study results indicate that there are 73.4 million possible city deliveries and 18.9 million possible rural deliveries, for a daily combined total of 92.3 million possible deliveries.

The total daily cost for city delivery routes are $19.0 million and $4.8 million for rural routes. Other carrier duties, which include mail collection and relay deliveries for city delivery carriers have an additional daily cost of $107,548 or $32.5 million annually.

Other additional duties for rural carriers include mail collection and the servicing of intermediate office stops for an additional daily cost of $30,636 or $9.3 million annually.

The total annual cost for city delivery routes are $5.8 billion and $1.5 billion for rural routes, for a combined total for all mail delivery of $7.3 billion annually.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 150	Cost Per Delivery	Annual Cost
Other Delivery	$1.037	$314.18
Door	1.038	314.57
Behind Sidewalk	0.444	134.42
Curbside	$0.490	$148.38
Central Delivery	$0.484	$146.76
NDCBU	0.338	102.35
Apartment/Delivery Center	0.295	89.47
Other Central*	0.702	212.65

UNIVERSE CODE 152	Cost Per Delivery	Annual Cost
Other Delivery	$1.784	$540.61
Door	1.784	540.61
Behind Sidewalk	N/A	N/A
Curbside	$0.296	$89.80
Central Delivery	$0.254	$76.97
NDCBU	0.218	66.02
Apartment/Delivery Center	0.269	81.37
Other Central*	0.446	135.15

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

N/A - no deliveries were recorded for this mode of delivery.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 154	Cost Per Delivery	Annual Cost
Other Delivery	$0.360	$109.12
Door	0.360	109.14
Behind Sidewalk	0.354	107.34
Curbside	$0.274	$83.06
Central Delivery	$0.083	$25.11
NDCBU	0.177	53.59
Apartment/Delivery Center	0.090	27.20
Other Central*	0.179	54.26

UNIVERSE CODE 155	Cost Per Delivery	Annual Cost
Other Delivery	$0.440	$133.20
Door	0.441	133.59
Behind Sidewalk	0.344	104.22
Curbside	$0.416	$126.02
Central Delivery	$0.175	$52.96
NDCBU	0.232	70.38
Apartment/Delivery Center	0.169	51.31
Other Central*	0.173	52.33

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 156	Cost Per Delivery	Annual Cost
Other Delivery	$0.281	$85.14
Door	0.279	84.61
Behind Sidewalk	0.317	96.09
Curbside	$0.232	$70.22
Central Delivery	$0.164	$49.69
NDCBU	0.146	44.38
Apartment/Delivery Center	0.160	48.40
Other Central*	0.188	57.11

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 157	Cost Per Delivery	Annual Cost
Other Delivery	$0.428	$129.71
Door	0.441	133.62
Behind Sidewalk	0.305	92.49
Curbside	$0.259	$78.39
Central Delivery	$0.165	$50.04
NDCBU	0.168	50.94
Apartment/Delivery Center	0.176	53.18
Other Central*	0.136	41.10

UNIVERSE CODE 162	Cost Per Delivery	Annual Cost
Other Delivery	$0.469	$142.00
Door	0.468	141.92
Behind Sidewalk	0.538	162.93
Curbside	$0.290	$87.80
Central Delivery	$0.180	$54.39
NDCBU	0.136	41.11
Apartment/Delivery Center	0.179	54.12
Other Central*	0.186	56.46

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 164	Cost Per Delivery	Annual Cost
Other Delivery	$0.537	$162.62
Door	0.542	164.27
Behind Sidewalk	0.296	89.59
Curbside	$0.271	$82.04
Central Delivery	$0.182	$55.04
NDCBU	0.178	54.08
Apartment/Delivery Center	0.176	53.20
Other Central*	0.206	62.38

UNIVERSE CODE 168	Cost Per Delivery	Annual Cost
Other Delivery	$1.755	$531.83
Door	1.755	531.83
Behind Sidewalk	N/A	N/A
Curbside	N/A	N/A
Central Delivery	$1.088	329.57
NDCBU	N/A	N/A
Apartment/Delivery Center	0.657	199.15
Other Central*	1.110	336.30

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

N/A - no deliveries were recorded for this mode of delivery.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 169	Cost Per Delivery	Annual Cost
Other Delivery	$1.522	$461.20
Door	1.525	462.17
Behind Sidewalk	0.971	294.19
Curbside	$0.375	$113.65
Central Delivery	$0.739	$224.07
NDCBU	0.490	148.50
Apartment/Delivery Center	0.494	149.70
Other Central*	0.756	229.04

UNIVERSE CODES 175 AND 176	Cost Per Delivery	Annual Cost
Other Delivery	$2.045	$619.77
Door	2.045	619.77
Behind Sidewalk	N/A	N/A
Curbside	N/A	N/A
Central Delivery	N/A	N/A
NDCBU	N/A	N/A
Apartment/Delivery Center	N/A	N/A
Other Central*	N/A	N/A

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

N/A - no deliveries were recorded for this mode of delivery.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODES 178 AND 179	Cost Per Delivery	Annual Cost
Other Delivery	$1.024	$310.37
Door	1.024	310.37
Behind Sidewalk	N/A	N/A
Curbside	N/A	N/A
Central Delivery	$0.337	$102.09
NDCBU	N/A	N/A
Apartment/Delivery Center	0.386	116.82
Other Central*	0.329	99.70

UNIVERSE CODES 181, 182 AND 183	Cost Per Delivery	Annual Cost
Other Delivery	$1.181	$357.92
Door	1.181	357.92
Behind Sidewalk	N/A	N/A
Curbside	N/A	N/A
Central Delivery	$0.422	$127.86
NDCBU	N/A	N/A
Apartment/Delivery Center	0.243	73.64
Other Central*	0.424	128.54

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

N/A - no deliveries were recorded for this mode of delivery.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 185	Cost Per Delivery	Annual Cost
Other Delivery	$3.223	$976.46
Door	3.223	976.46
Behind Sidewalk	N/A	N/A
Curbside	N/A	N/A
Central Delivery	$1.149	$348.18
NDCBU	N/A	N/A
Apartment/Delivery Center	N/A	N/A
Other Central*	1.149	348.18

UNIVERSE CODE 186 and 187	Cost Per Delivery	Annual Cost
Other Delivery	$2.328	$705.32
Door	2.328	705.32
Behind Sidewalk	N/A	N/A
Curbside	N/A	N/A
Central Delivery	$0.674	$204.21
NDCBU	N/A	N/A
Apartment/Delivery Center	N/A	N/A
Other Central*	0.674	204.21

*Other Central Delivery includes Group Boxes, Mail/VIM Room and Bulk.

N/A - no deliveries were recorded for this mode of delivery.

All calculations were made from unrounded numbers.

COST OF DELIVERY BY UNIVERSE CODE

UNIVERSE CODE 189	Cost Per Delivery	Annual Cost
Other Delivery	$0.313	$94.73
Door	0.313	94.73
Behind Sidewalk	N/A	N/A
Curbside	$0.276	$83.63
Central Delivery	$0.172	$52.12
NDCBU	0.166	50.25
Apartment/Delivery Center	0.181	54.84
Other Central*	0.167	50.60

UNIVERSE CODE 190	Cost Per Delivery	Annual Cost
Other Delivery	$0.265	$80.39
Door	0.265	80.39
Behind Sidewalk	N/A	N/A
Curbside	$0.261	$79.08
Central Delivery	$0.199	$60.30
NDCBU	0.184	55.60
Apartment/Delivery Center	0.194	58.78
Other Central*	0.303	91.81

*Other Central Delivery includes Mail/VIM Room and Bulk.

N/A - no deliveries were recorded for this mode of delivery.

All calculations were made from unrounded numbers.

CITY DELIVERY ROUTES
ALL UNIVERSE CODES COMBINED

	Cost Per Delivery	Annual Cost
Other Delivery	$0.318	$96.45
Door	0.318	96.45
Behind Sidewalk	0.313	94.71
Curbside	$0.235	$71.07
Central Delivery	$0.169	$51.21
NDCBU	0.151	45.64
Apartment/Delivery Center	0.164	49.69
Other Central*	0.190	57.57

RURAL DELIVERY ROUTES
ALL UNIVERSE CODES COMBINED

	Cost Per Delivery	Annual Cost
Other Delivery	$0.266	$80.60
Door	0.266	80.60
Behind Sidewalk	N/A	N/A
Curbside	$0.262	$79.37
Central Delivery	$0.198	$59.99
NDCBU	0.183	55.45
Apartment/Delivery Center	0.193	58.48
Other Central*	0.301	91.20

*Other Central Delivery includes Group Boxes (except Rural Route does not include Group Boxes), Mail/VIM Room and Bulk.

ROUTE TYPE AND UNIVERSE CODE

Universe Code:

150
Business Routes
- 1 - Trip Foot Regular
- 1 - Trip Motor Regular
- 2 - Trip Foot Regular
- 2 - Trip Motor Regular

152
3 - Trip Routes

154
Residential Routes
- Foot Regular

155
Business-Residential-Mixed Routes
- 1 - Trip Foot Aux. (Bus.)
- 1 - Trip Motor Aux. (Bus.)
- 2 - Trip Foot Aux. (Bus.)
- 2 - Trip Motor Aux. (Bus.)
- Foot Aux. (Res.)
- Foot Aux. (Mix)

156
Residential
- Park and Loop Regular
- Curbline Regular

157
Residential - Mixed Routes
- Park and loop Aux. (Res.)
- Curbside Aux. (Res.)
- Park and loop Aux. (Mix)
- Curbside Aux. (Mix)

162
Mixed Routes
- Foot Regular

164
Mixed Routes
- Park and Loop Regular
- Curbside Regular

168
Other Type Routes
- Parcel Post Regular

169
Parcel Post Combination Routes

170
Non-Parcel Post Combination Routes
Relay Aux. Routes

175
4 - Carrier Business Route

176
Empire State Building (10 carriers assigned)

178
3 - Carrier Residential Route

179
4 - Carrier Residential Route

181
2 - Carrier Mixed Route

182
3 - Carrier Mixed Route

183
4 - Carrier Mixed Route

185
2 - Carrier Parcel Post Route

186
3 - Carrier Parcel Post Route

187
4 - Carrier Parcel Post Route

189
Regular and Auxiliary Rural

190
Heavy rural

EXHIBIT B

Sample sizes for each type or group of routes were calculated using the formula for determining a simple random sample which is:

$$n = \frac{NK^2v^2}{NR^2 + k^2v^2}$$

where n is the sample size

k is the confidence coefficient (k = 1.65 for a 90% confidence level)

v is the coefficient of variation, $\frac{\sigma}{u}$ = .8 (assumed)

σ is the population standard deviation

u is the population mean

N is the number of units in the population,

and R is the fractional precision level (i.e., the proportion of the difference between sample mean and population mean to the population mean), assumed to be .10.

EXHIBIT C

The AP 10, FY 1984, ODIS/RPW frame of delivery routes was used to determine the total number of routes of each type.

UNIVERSE CODE	ROUTE DESCRIPTION	TOTAL ROUTES	SAMPLE SIZE
150	Regular Business 1 or 2 Trip Foot or Motor	2,680	164
154	Regular Residential Foot	21,905	173
155	Auxiliary Foot	1,770	159
156	Regular Residential Motorized	95,365	174
157	Auxiliary Motorized	6,745	170
162	Mixed 1-Trip Foot, Regular	2,070	161
164	Regular Mixed 1-Trip Motorized	5,450	169
169	Combination	2,450	163
			1,333
	Certainty Grouping	46	46
	Regular P.P. Plus multi-man routes	750	142
		139,231	1,521
189	Regular and Auxiliary Rural	9,740	172
190	Heavy Rural	23,500	173
		33,240	345

EXHIBIT D

Delivery Cost Study
Route Breakdown
by Region

Northeast Region

Rural Routes	City Delivery Routes
25	423

Eastern Region

Rural Routes	City Delivery Routes
52	202

Central Region

Rural Routes	City Delivery Routes
124	354

Southern Region

Rural Routes	City Delivery Routes
114	301

Western Region

	Rural Routes	City Delivery Routes
	34	290
Total	349	1,570

Delivery Cost Study
Regional Pre-Test
Sites and Routes

Northeast Region

1. Howell Station
   Rural Route No. 3
   Red Bank, NJ 07731

2. Newark, NJ 07102
   Residential Foot Regular
   Route No. 07702

   Station ZIP Code 07102
   Residential Park and Loop Regular
   Route No. 07706

3. Patterson, NJ 07510
   Station ZIP Code 07505
   1-Trip Business Foot
   Route No. 05112

4. Sussex, NJ 07461
   Residential Curbside Aux.
   Route No. 61003

Delivery Cost Study
Regional Pre-Test
Sites and Routes

Eastern Region

1. Bridgetown Station
   Rural Route #5
   Bridgetown, NJ 08302

2. Rochester, NY 14692
   Residential Park and Loop
   Route No. 16024

   Residential Foot Regular
   Route No. 16012

   Station ZIP Code 14614
   Business 1-Trip Foot Regular
   Route No. 14001

   Station ZIP Code 14612
   Residential Curbside Regular
   Route No. 12009

Delivery Cost Study
Regional Pre-Test
Sites and Routes

Central Region

1. MSC Toledo, OH
   Clyde, OH 43410
   Rural Route, No. 3

2. Columbus, OH 43216
   Station ZIP Code 43205
   Residential Foot Regular
   Route No. 05004

   Station ZIP Code 43205
   Residential Park and Loop Regular
   Route No. 05001

   Station ZIP Code 43205
   Business 1-Trip Foot Regular
   Route No. 15005

3. Bath, OH 43210
   Business 1-Trip Motor Regular
   Route No. 10002

Delivery Cost Study
Regional Pre-Test
Sites and Routes

Southern Region

1. MSC Atlanta, GA
Airsville, GA 30103
Rural Route No. 2

2. Raleigh, NC 27611
Station ZIP Code 27605
Residential Foot Regular
Route No. 05001

Station ZIP Code 27609
Business 1-Trip Motor Regular
Route No. 09018

Station ZIP Code 27609
Residential Park and Loop Regular
Route No. 09007

Station ZIP Code 27609
Residential Curbside Regular
Route No. 09009

Delivery Cost Study
Regional Pre-Test
Sites and Routes

Western Region

1. MSC San Bernardino, CA
   Perris, CA 92370
   Rural Route No. 6

2. Long Beach, CA 90801
   Station ZIP Code 90805
   Residential Foot Regular
   Route No. 05006

   Station ZIP Code 90805
   Residential Park and Loop Regular
   Route No. 05011

   Station ZIP Code 90806
   Mixed Park and Loop Regular
   Route No. 06025

3. Santa Fe Springs, CA 90670
   Business 1-Trip Motor Regular
   Route No. 70008

EXHIBIT F

MODES OF DELIVERY COST STUDY COORDINATORS

National Project Manager (Cost and Economics Branch):

James Berkley, Jr.

Headquarters Delivery Services Coordinators:

Michael Shine
Anna Maria Campbell

Regional Finance Coordinators:

Eastern Region - Ernie Miller

Northeast Region - Jerry Silberlight

Central Region - Dorothy Petras
Bob Kaiser

Southern Region - Art Grant

Western Region - Marco Lari

Regional Delivery Coordinators:

Eastern Region - Richard Eldredge

Northeast Region - Frank Felica

Central Region - Gus Robledo

Southern Region - Marshall Jaffe

Western Region - Arlene Boen

APPENDIX A

COST OF DELIVERY STUDY

I. Purpose

The Department of the Controller has been requested by the Delivery Services Department to develop baseline costs for the various modes and types of carrier delivery. The purpose of the delivery cost study is to obtain data on city and rural routes by type and mode of delivery. The route survey will consist of direct observation by data collectors to record components of carrier office duties and street delivery time, along with characteristics of mail volume and route types. These elements are needed to arrive at the cost of delivery.

II. Study Period

The route survey will be conducted starting Monday, April 15, 1985, and continue through Friday, June 7, 1985, at test sites and on routes that have been designated in each region.

Data collection forms will be completed on each scheduled route by an assigned data collector. This includes recording a work activity code that best represents the task in which a carrier is involved, time started, and the total number of actual deliveries made. The actual deliveries column will contain $\boxed{0\,|\,0\,|\,0}$ for all office functions.

III. Responsibilities

A. Regional Cost Investment Analysis Branch is responsible for the overall study coordination within each region. This includes spot checking sites where data collection is in progress, receiving completed data collection forms, reviewing them, and forwarding them to the Cost and Economics Branch in Headquarters.

B. The Regional Study Coordinator will:

- Assist Cost and Economics Branch in conducting the route data collection for this study.
- Ensure accurate data collection and timely submission of study data.
- Notify the appropriate local employee organization(s) of the study, assuring them that the study is merely to determine the cost of delivery and not an employee performance evaluation, a route evaluation, or individual measurement.
- Instruct data collection personnel in the purpose of the study and solicit full cooperation of all employees to provide accurate and reliable information for activities outlined in the data collection forms.
- Participate in the training of data collectors.
- Insure that all work activity codes and clock times entered on the data collection forms include only those functions of a carrier's office and street duties connected with the delivery of mail.

IV. Data Collector's Duties and Responsibilities

The data collector will begin recording data when the carrier reports for duty. The header information on the data collection form will be recorded using the PS Forms 1621 and 1564-A for city delivery carriers, and PS Form 4240 for rural carriers, where possible. The delivery unit ZIP Code, finance number, route type code and route number will be completed on additional pages for routes that have multiple data collection forms for the eight-hour route survey.

The beginning work activity code for reporting time of the carrier is recorded, only a start time is needed to begin the route study day. All subsequent entries for office activities will require a work activity code and start time for each function, the actual deliveries column will require the recording $\boxed{0\,|\,0\,|\,0}$ to complete the line item. The actual piece count of the route mail volume will not be needed, only delivery volume in feet using the Delivery Unit Volume Recording System (DUVRS) measurememt (rounded to nearest tenth). The SPR volume need not be recorded.

On the street segment of the route, data will be recorded on the type and mode of delivery and the actual number of deliveries made under an activity code. When the type and mode of delivery changes, a related activity code and start time will be recorded. If the carrier deadheads or travels a distance to continue the route delivery or to start a new type or mode of delivery, a new start time will not be recorded until the actual start of the delivery. If the type and mode of delivery remains the same, the clock will continue to run, i.e., the total time for travel will be associated with that delivery.

On Expedited Preferential Mail (EPM) routes, the non-preferential volume and time will be captured the day before the route study by the delivery supervisor on duty. So, it is imperative that the data collector contact each office to verify the route and type in order to capture this volume and casing time the day before each route study. When a carrier on an EPM route returns to the office from street duties, the data collector will end the route study after the carrier has cleared the accountable cage and finished all work activities associated with that day's route activities. Do not record the casing time for non-preferential volume for the next day's delivery.

On rural routes, the data collector will ride in the vehicle with the carrier, if the vehicle permits. On city delivery routes, the data collector will make arrangements for a Postal Service vehicle when conducting a study on a motorized route, if the vehicle does not accommodate passengers. The data collector will refrain from directing the carrier on how to perform his/her route activities.

The data collector must account for all the carrier's office and route activities for the study period, which will be one (1) day for each route.

V. Submission of Data

After all forms have been reviewed by the study coordinators, they should be forwarded by Express Mail at the end of the test week to the Regional Cost Investment Analysis (CIA) Branch. After being reviewed by CIA, the forms for each week are to be sent by Headquarters pouch to:

U.S. Postal Service Headquarters
Cost and Economics Branch
Attn: James Berkley, Jr.
Room 8441
475 L'Enfant Plaza West, SW
Washington, DC 20260-5219

in accordance with the following schedule:

- o Forms for week 1 to be received at Headquarters by 4/26/85
- o Forms for week 2 to be received at Headquarters by 5/03/85
- o Forms for week 3 to be received at Headquarters by 5/10/85
- o Forms for week 4 to be received at Headquarters by 5/17/85
- o Forms for week 5 to be received at Headquarters by 5/24/85
- o Forms for week 6 to be received at Headquarters by 5/31/85
- o Forms for week 7 to be received at Headquarters by 6/07/85
- o Forms for week 8 to be received at Headquarters by 6/14/85

The data collected by this study is restricted information and is only to be released by the authority of the project manager.

The national project manager for this study is James Berkley, Jr., Budget and Cost Analyst, Principal, who can be contacted on FTS 245-4894 or commercial (202) 245-4894.

ACTIVITY CODES
CITY DELIVERY ROUTES

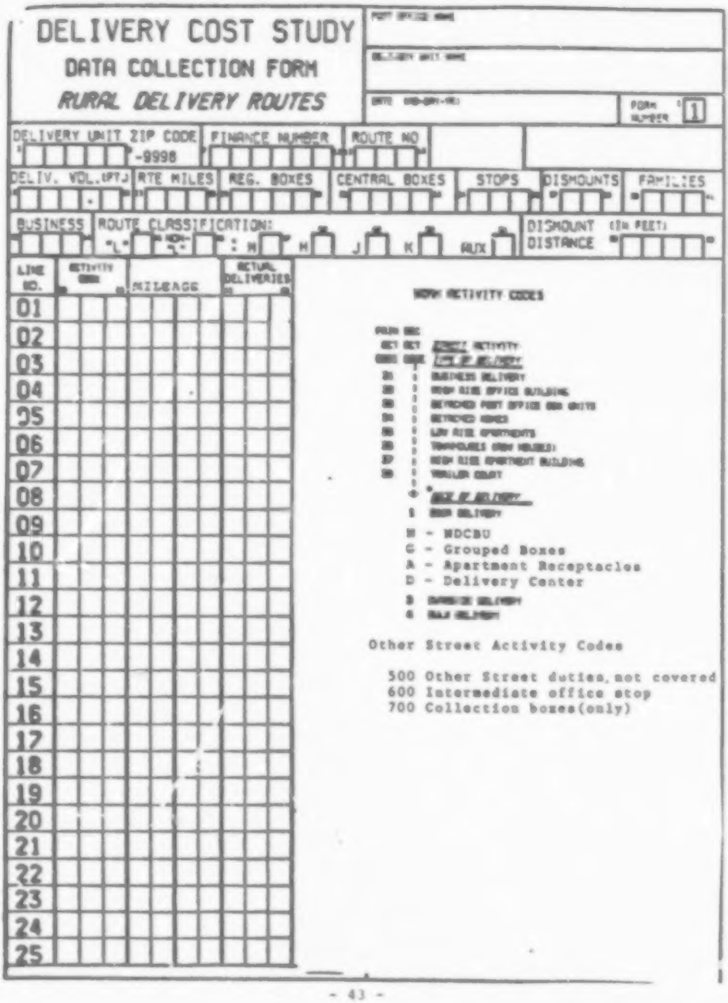
ACTIVITY CODE	
100	Begin Time of the Carrier.
101	Casing Mail (both letters and flats).
102	Accountable Mail Functions - Preparing delivery receipts, postage due, customs mail and casing of same. Traveling from route case to accountable case when applicable.
103	Strapping Out - Withdrawing mail from case and placing in sequence of delivery.
104	Other Office Work Not Covered - Will be used when preparing mail for central mark-up unit, nixie mail, computerized forwarding system and to answer official route communication, i.e., telephone, customer inquiries and letter correspondence.
105	End Time - Will be used to end route study, will not necessarily be the carrier's ending time for the day.
200	Begin Street Duties - When the carrier leaves office to load vehicle or to perform any activity not related to an office function prior to leaving office for route.
201	Travel Time - Use only for travel between office and route and return to office from route. Not to be used for route travel or deadheads while in the process of delivering mail.
400	Time Out - To allow the data collector to bring paperwork up to the point of the carrier's next delivery.
410	Personal Time - To record authorized breaks in the office and on the street.
420	Lunch - Self explanatory.

ACTIVITY CODES
CITY DELIVERY ROUTES

PRIMARY ACTIVITY CODE	TYPE OF DELIVERY
31	Business Delivery - Delivery to a location where the customer is engaged in some commercial enterprise, includes: delivery to individually located business as well as office or industrial parks, factory areas, shopping malls, etc.
32	High Rise Office Building - Businesses located in a building containing three or more floors to which deliveries are made to individual or centralized locations.
33	Detached Post Office Box Units - Unmanned postal facilities where carrier delivery is made to post office boxes offered to the public for a fee.
34	Detached Homes - Individual, single-family dwelling units that are not physically connected.
35	Low Rise Apartments - Three or more multi-family dwelling units located on 1 to 3 floors (excluding basement level) and that have a common entrance.
36	Townhouses (Row Houses) - Two or more attached, multi-family dwelling units that have no common entrances.
37	High Rise Apartment Building - Multi-family dwelling unit located on four or more floors and that have a common entrance (excluding basement level).
38	Trailer Court - May be permanent or transient. Permanent developments consist of managed mobile home parks or residential mobile home subdivisions where the lots are permanently assigned, the streets are maintained for public use and the conditions are similar to those of a normal residential subdivision. Transient developments are recreational vehicle parks and trailer courts where the lots are temporarily rented and considered transient, even though some families may live in them for an extended period of time.

SECONDARY ACTIVITY CODE	MODES OF DELIVERY
1	Door Delivery - Delivery made to an individual residence or business that has a box, door slot or other delivery receptacle located at or near the building entrance.
2	Central Delivery - Two or more possible deliveries grouped at a central location (excludes curbline deliveries).
3	Curbside Delivery - Deliveries made to single or grouped boxes located at the curb.
4	Bulk Delivery - Unsorted mail delivered to a responsible individual, such as an apartment house manager, for subsequent distribution to tenants. Does not include delivery to tenant establishments such as hotels or motels that cater to transients.
5	VIM Room - Mail room for business deliveries where the carrier does the distribution to individual businesses/residences, usually located in the building where the distribution is made.
6	Behind the Sidewalk - Deliveries made to single or grouped boxes located some distance from the street, behind a sidewalk. This form of delivery is most commonly found where sidwalks and street curbing are joined as one unit.
7	Parcel Post Delivery (too large for box) - Parcel delivery to the door of an individual business or residence.
8	Parcel Post Delivery (Parcel Locker) - Parcel delivery for a customer of centalized delivery service that is not taken to the customers' door, but left in a locking parcel receptacle installed for that purpose.
9	Special Services Mail Delivery - Delivery of any mail piece requiring a customer signature, the collection of monies or other special service.
0	Other Street Duties - Customer inquiries on mailing information, postage rates and collection of mail.

In order to complete the activity code data field, a combination of the above primary and secondary codes must be matched according to the work activity the carrier is performing.



DELIVERY COST STUDY
DATA COLLECTION FORM
RURAL DELIVERY ROUTES

FORM NUMBER 1

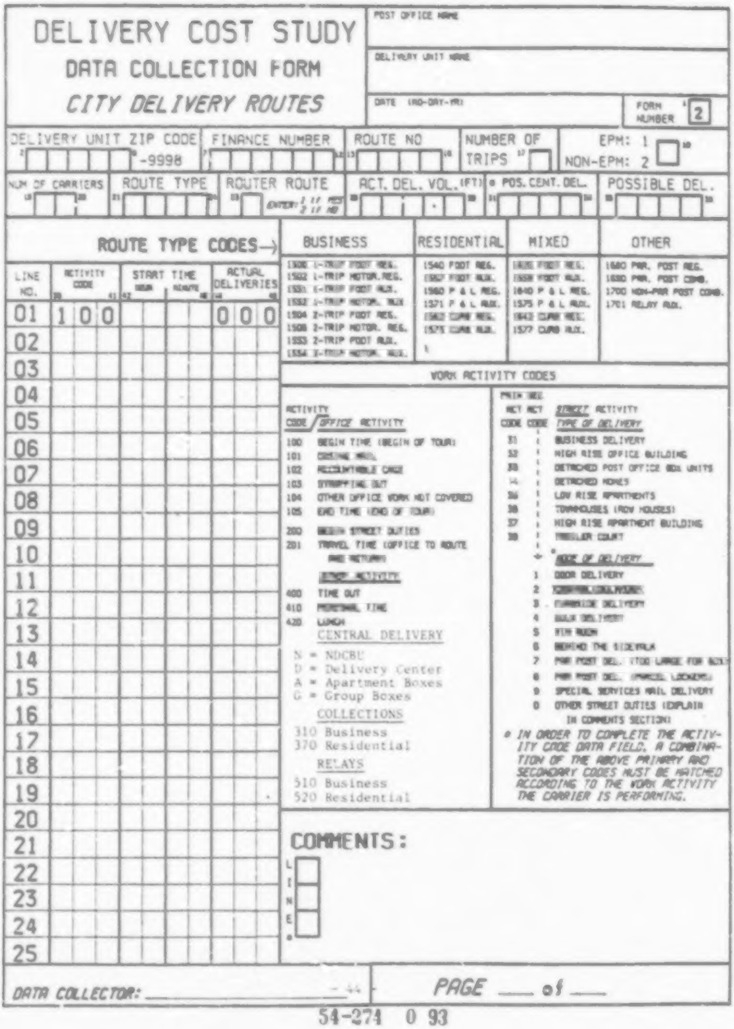
DELIVERY UNIT ZIP CODE ☐☐☐☐☐-9998	FINANCE NUMBER ☐☐☐☐☐☐	ROUTE NO ☐☐☐				
DELIV. VOL.(FT.) ☐☐☐.☐	RTE MILES ☐☐☐	REG. BOXES ☐☐☐☐	CENTRAL BOXES ☐☐☐☐	STOPS ☐☐☐	DISMOUNTS ☐☐	FAMILIES ☐☐☐
BUSINESS ☐☐☐	ROUTE CLASSIFICATION: "L" ☐ ☐ : H ☐ M ☐ J ☐ K ☐ AUX ☐				DISMOUNT DISTANCE (IN FEET) ☐☐☐☐	

LINE NO.	ACTIVITY	MILEAGE	ACTUAL DELIVERIES
01			
02			
03			
04			
05			
06			
07			
08			
09			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

M - NDCBU
G - Grouped Boxes
A - Apartment Receptacles
D - Delivery Center

Other Street Activity Codes

500 Other Street duties, not covered
600 Intermediate office stop
700 Collection boxes(only)



DELIVERY COST STUDY
DATA COLLECTION FORM
CITY DELIVERY ROUTES

POST OFFICE NAME
DELIVERY UNIT NAME
DATE (MO-DAY-YR)
FORM NUMBER 2

DELIVERY UNIT ZIP CODE ☐☐☐☐☐-9998
FINANCE NUMBER ☐☐☐☐☐☐
ROUTE NO ☐☐☐☐
NUMBER OF TRIPS ☐
EPM: 1 NON-EPM: 2 ☐
NUM OF CARRIERS ☐☐
ROUTE TYPE ☐☐☐☐
ROUTER ROUTE ☐ ENTER: 1 IF YES 2 IF NO
ACT. DEL. VOL. (FT) ☐☐☐.☐
* POS. CENT. DEL. ☐☐☐☐
POSSIBLE DEL. ☐☐☐☐

ROUTE TYPE CODES→

BUSINESS	RESIDENTIAL	MIXED	OTHER
1500 1-TRIP FOOT REG. 1502 1-TRIP MOTOR.REG. 1551 1-TRIP FOOT AUX. 1552 1-TRIP MOTOR. AUX 1504 2-TRIP FOOT REG. 1508 2-TRIP MOTOR. REG. 1553 2-TRIP FOOT AUX. 1554 2-TRIP MOTOR. AUX.	1540 FOOT REG. 1567 FOOT AUX. 1560 P & L REG. 1571 P & L AUX. 1562 CURB REG. 1576 CURB AUX.	1635 FOOT REG. 1558 FOOT AUX. 1640 P & L REG. 1575 P & L AUX. 1642 CURB REG. 1577 CURB AUX.	1680 PAR. POST REG. 1630 PAR. POST COMB. 1700 NON-PAR POST COMB. 1701 RELAY AUX.

LINE NO.	ACTIVITY CODE			START TIME HOUR		MINUTE		ACTUAL DELIVERIES		
01	1	0	0					0	0	0
02										
03										
04										
05										
06										
07										
08										
09										
10										
11										
12										
13										
14										
15										
16										
17										
18										
19										
20										
21										
22										
23										
24										
25										

WORK ACTIVITY CODES

ACTIVITY CODE	*OFFICE* ACTIVITY
100	BEGIN TIME (BEGIN OF TOUR)
101	CASING MAIL
102	ACCOUNTABLE CAGE
103	STRAPPING OUT
104	OTHER OFFICE WORK NOT COVERED
105	END TIME (END OF TOUR)
200	BEGIN STREET DUTIES
201	TRAVEL TIME (OFFICE TO ROUTE AND RETURN)
	STREET ACTIVITY
400	TIME OUT
410	PERSONAL TIME
420	LUNCH

CENTRAL DELIVERY
N = NDCBU
D = Delivery Center
A = Apartment Boxes
G = Group Boxes

COLLECTIONS
310 Business
370 Residential

RELAYS
510 Business
520 Residential

PRIM ACT CODE	SEC ACT CODE	*STREET* ACTIVITY *TYPE OF DELIVERY*
31		BUSINESS DELIVERY
32		HIGH RISE OFFICE BUILDING
33		DETACHED POST OFFICE BOX UNITS
34		DETACHED HOMES
35		LOW RISE APARTMENTS
36		TOWNHOUSES (ROW HOUSES)
37		HIGH RISE APARTMENT BUILDING
38		TRAILER COURT
		*MODE OF DELIVERY
	1	DOOR DELIVERY
	2	CENTRAL DELIVERY
	3	CURBSIDE DELIVERY
	4	BULK DELIVERY
	5	FIM RUSH
	6	BEHIND THE SIDEWALK
	7	PAR POST DEL. (TOO LARGE FOR BOX)
	8	PAR POST DEL. (PARCEL LOCKERS)
	9	SPECIAL SERVICES MAIL DELIVERY
	0	OTHER STREET DUTIES (EXPLAIN IN COMMENTS SECTION)

* *IN ORDER TO COMPLETE THE ACTIVITY CODE DATA FIELD, A COMBINATION OF THE ABOVE PRIMARY AND SECONDARY CODES MUST BE MATCHED ACCORDING TO THE WORK ACTIVITY THE CARRIER IS PERFORMING.*

COMMENTS:

LINE # ☐☐☐

DATA COLLECTOR: ____________________

PAGE ___ *of* ___

INSTRUCTIONS FOR COMPLETING DATA FIELDS ON FORM 2 - CITY DELIVERY ROUTES

Delivery Unit ZIP Code (2-6): Enter ZIP Code of delivery unit.

Finance Number (7-12): Enter post office finance number.

Route Number (13-16): Enter the 4-digit identifying route number.

Number of Trips (17): Enter the number of trips.

EPM; Non-EPM (18): Enter 1 for EPM route; enter 2 for non-EPM route.

Number of Carriers (19-20): Enter total number of carriers assigned.

Route Type (21-24): Enter route type code. (See front of form).

Router Route (25): If route has a night router or case router, enter code 1 or 2.

Actual Delivered Volume (26-30): Enter volume in feet and round up to nearest hundred.

Possible Central Deliveries (31-34): Enter the total possible central deliveries.

Possible Deliveries (35-38): Enter total possible deliveries.

Activity Code (39-41): Enter the 3-digit activity code that matches the carrier's activity. When coding street activities, a primary and secondary code must be matched according to the carrier's work activity.

Start Time (42-45): Enter the time an activity begins. The start time of one activity will be the stop time of the preceding activity.

Actual Deliveries (46-48): No entries will be made in this column except for actual deliveries made during street activities; 0 0 0 will be entered for all others.

This study is not an employee evaluation, individual measurement, or route performance survey.

The data collected by this study is restricted information and is only to be released by the authority of the project manager.